

1 VIRGINIA:

2 IN THE COUNTY OF WASHINGTON

3 VIRGINIA DEPARTMENT OF MINES, MINERALS AND ENERGY

4 VIRGINIA GAS AND OIL BOARD

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9 JANUARY 21, 2003

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12 APPEARANCES:

13 MASON BRENT, GAS & OIL INDUSTRY REPRESENTATIVE

14 BILL HARRIS, PUBLIC MEMBER

KEN MITCHELL, CITIZEN APPOINTEE

15 BENNY WAMPLER, DIRECTOR OF THE DMME & CHAIRMAN

DENNIS GARBIS, PUBLIC MEMBER

16 DONALD RATLIFF, COAL INDUSTRY REPRESENTATIVE

JAMES McINTYRE, PUBLIC MEMBER

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18
19 SHARON PIGEON, COUNSEL FOR THE BOARD WITH THE ATTORNEY
GENERAL'S OFFICE

20 BOB WILSON, DIRECTOR OF THE DIVISION OF GAS & OIL AND ACTING
PRINCIPAL EXECUTIVE TO THE STAFF OF THE BOARD

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1 BENNY WAMPLER: Good morning. My name is Benny
2 Wampler. I'm Deputy Director for the Virginia Department of
3 Mines, Minerals and Energy, and Chairman of the Gas and Oil
4 Board. I'll ask the members to introduce themselves,
5 starting with Mr. Brent.

6 MASON BRENT: My name is Mason Brent. I'm from
7 Richmond and I represent the gas and oil industry.

8 BILL HARRIS: I'm Bill Harris, a public member from
9 Wise County.

10 KEN MITCHELL: My name is Ken Mitchell. I'm a
11 public member from Stafford County, Virginia.

12 SHARON PIGEON: Sharon Pigeon, with the office of
13 the Attorney General.

14 DENNIS GARBIS: My name is Dennis Garbis from
15 Fairfax County. I'm a public member.

16 DONALD RATLIFF: Donald Ratliff from Wise County.
17 I represent the Coal Industry.

18 JAMES MCINTYRE: Jim McIntyre. I'm from Wise,
19 Virginia. I'm a public member.

20 BOB WILSON: I'm Bob Wilson. I'm the Director of
21 the Division of Gas and Oil and principal executive to the
22 staff of the Board.

23 BENNY WAMPLER: The first item on the Board's
24

1 agenda today, we'll receive a year-end report on the Board's
2 escrow account. Bob Wilson will be providing information.
3 Bob, you've handed out some information already. Do you want
4 to go ahead?

5 BOB WILSON: Yes, sir. Thank you. What I have
6 handed out to the Board members is actually the quarterly
7 review of the last quarter of the year.

8 As you can see, we ended up with a balance of
9 \$6,988,647.25 as of December the 31st for the year. This
10 would be the year-end balance.

11 We started the quarter with a balance of
12 \$6,682,158.61, received deposits of \$281,901.49; received
13 interest of \$24,587.25. There were no disbursements during
14 this quarter. There were no funds actually taken out of the
15 account this quarter. As the letter explains there, they
16 deduct their fees on a semiannual basis, and that will be
17 done in February.

18 For the year, we received deposits of \$745,221.34,
19 interest posted was \$94,376.61. Total disbursements for the
20 year \$63,603.87. All of those were in the first half of the
21 year. The second half, as you'll see on the sheet attached
22 to the report that I handed out, which is the semi-annual
23 disbursement report and it's a zero balance. There was
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1 nothing disbursement during the last half of the year. So,
2 the \$63,603.87 was disbursed during the first half. Fees for
3 the year, \$60,000, were taken out by the bank on two
4 different \$30,000 drafts.

5 The account pertains...the operation seems to go
6 pretty well here. We had some problems that we reported
7 earlier with some tract balances that had been placed
8 separately into the account back when we were experimenting
9 with assigning tracts balances. It was kind of a miserable
10 failure. So, we have gone back...the bank has reinserted
11 those numbers back into the main account...the main sub-
12 account, I should say, into the VGOB account as of the date
13 that they normally would have been deposited. So, that is
14 all taken care of. We should not have any more problems with
15 that. As we'll discuss sometime further, I think we're
16 trying to come up with a method for disbursements that runs a
17 bit smoother and keeps us in absolute compliance. That, I
18 think, is coming along pretty well.

19 The one outstanding thing that we have discussed
20 for well over a year now is an attempt to come up with a way
21 to get more money into this account in the way of interest.
22 Our closing interest in December was 1.62%. Basically, it
23 has stabilized about at that point for the last...oh, about
24

1 for the last two quarters. I have talked to some local
2 county folks about their investments. They're not always
3 really anxious to talk somebody about their investments when
4 you just call on the phone and identify themselves and ask
5 what they do with their money. But basically, the
6 information I have been able to obtain boils down to where we
7 have been all along with this thing. We can either put it
8 in...leave it in the regular account and draw the meager
9 interest that's being given here; put it in some other
10 instrument, a relative short term instrument, and it will be
11 basically the same thing; put it in a long term non-managed
12 instrument, which at this point in time will not give us a
13 heck of a lot more advantage either; or everything else is
14 form...some form managed by sub-account...accounts where they
15 have to be regular decisions made.

16 I would like to suggest for the Board's
17 consideration that we get past this particular issue. Our
18 contract with the bank is basically a service contract. They
19 are providing us with services in addition to the interest
20 that we're receiving on this. Yes, we pay them \$5,000 a
21 month for that service. But I think you all know how far...
22 how much service \$5,000 gets you in a major corporation
23 nowadays. I would like for the Board to consider either

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1 making a decision on how we go with this, or let's stick with
2 what we've got and go on to other issues. I haven't been
3 successful at all in finding a way that we can make more
4 money for this account without having an account manager. I
5 don't think the Board's in a condition to do that.

6 MASON BRENT: As I recall, I don't think we could
7 improve the return meaningfully unless we went into some
8 considerably longer term instruments. As I recall, the
9 general consensus of the Board at the time was nobody here
10 was willing to bet that interest rates would stay down that
11 long.

12 BOB WILSON: Correct.

13 MASON BRENT: We wouldn't look too smart down the
14 road if we were earning, you know, 2% in a 4% market.

15 BENNY WAMPLER: Right.

16 BOB WILSON: As I have been able to find out and
17 verify again, you have to go to a four year instrument of the
18 sort we're in before you get any kind of appreciable increase
19 or return. We go up to maybe 1.9 if we went to a two or
20 three year instrument, but that's pretty insignificant.

21 MASON BRENT: Mr. Chairman, I don't know if we need
22 a motion for this or not. My vote is to stay where we are.

23 DENNIS GARBIS: I would second that.

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1 BENNY WAMPLER: Second. Any further discussion or
2 questions of Mr. Wilson?

3 KEN MITCHELL: Discussion. Mr. Chairman, I'm
4 probably the only member of this Board that disagrees. But
5 it is a Board, so we all get to say our proverbial piece.

6 I think that we needed to be well apprised of this
7 account. I think we need to be kept up at each meeting.
8 Bob...I'd ask Bob to give us some sort of a report. It could
9 be a thirty second report, it could be a one minute report.
10 But I'm saying...you know, I don't want to be drawing 1.6 two
11 years from now whenever else is drawing 2.62, you know, and
12 everyone think we're just doing hunky-dory because we're
13 still stuck on 1.62. So, I...I think we need a lot of input
14 from the bank from their people. I think we need to be well
15 apprised of the market...prevailing market conditions, if
16 they change, I expect the 1.62 to change with it. That's my
17 only concern.

18 BENNY WAMPLER: Any other discussion?

19 DENNIS GARBIS: Well, I think the 1.62 or the 1.6,
20 that's not locked in. That fluctuates and as the interest
21 rates increase, I'm sure this will also. So, I don't think
22 we're in a total vacuum. I mean, I agree with you. But
23 notwithstanding the fact that the difference between, you

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1 know, three-tenths of one percent. I mean, I don't know if
2 there's a great tradeoff on that.

3 BENNY WAMPLER: Mr. Mitchell, basically you're
4 asking for a monthly report---?

5 KEN MITCHELL: Yes.

6 BENNY WAMPLER: ---of where we are?

7 KEN MITCHELL: Right.

8 BENNY WAMPLER: Just that the Board monitor to make
9 certain that the rates are comparable rates---?

10 KEN MITCHELL: Yes, sir.

11 BENNY WAMPLER: ---that are being earned in the
12 market?

13 KEN MITCHELL: Right. I mean, you can use Fed
14 funds as a factor. You can use local deposit banks as a
15 factor. You can use anything...I don't care what you use as
16 the milestone or the stepping stone to get where I want to
17 be, but I'm just asking that...and it can be a sixty second
18 report. It can be one sheet of paper and you can give us,
19 here's the prevailing rates across Southwestern Virginia.

20 MASON BRENT: I mean, that's fine. I think we
21 accomplish the same thing with the quarterly report instead
22 of giving a report every thirty days.

23 KEN MITCHELL: I'm just saying basically it could
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1 be so generic. Like I said, it could be one sheet of paper.
2 It can be three lines, just something to let use know what
3 the markets is doing. That's all I'm asking.

4 DENNIS GARBIS: There would be a very nice problem
5 to have if the Fed raises the interest rates that
6 dramatically in a three month period. That would be a great
7 problem to have. I hope we have that problem.

8 KEN MITCHELL: If you all could work that into this
9 motion, I'd be happy to support Mr. Brent's motion.

10 BENNY WAMPLER: His motion?

11 MASON BRENT: I think quarterly is enough. I'll
12 leave the motion as it is.

13 KEN MITCHELL: Okay.

14 BENNY WAMPLER: I have a motion and a second. Is
15 there any further discussion or questions?

16 (No audible response.)

17 BENNY WAMPLER: All in favor, signify by saying
18 yes.

19 (All members signify by saying yes except Ken
20 Mitchell.)

21 BENNY WAMPLER: Opposed, say no.

22 KEN MITCHELL: No.

23 BENNY WAMPLER: One no. Thank you. I believe you
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1 all received the minutes and the results of the hearing on
2 December the 17th. I ask at this time if there's any
3 questions, corrections or suggestions on that. Otherwise, a
4 motion to approve those minutes would be appreciated.

5 MASON BRENT: I so move.

6 DONALD RATLIFF: I second.

7 BENNY WAMPLER: Any further discussion?

8 (No audible response.)

9 BENNY WAMPLER: All in favor, signify by saying
10 yes.

11 (All members signify by saying yes.)

12 BENNY WAMPLER: Opposed, say no.

13 (No audible response.)

14 BENNY WAMPLER: The minutes are approved. The next
15 item on the agenda is a petition from Equitable Production
16 Company for pooling of a conventional well V-505369. This
17 was continued from November. We'd ask the parties that wish
18 to address the Board in this matter to come forward at this
19 time.

20 JIM KISER: Mr. Chairman and members of the Board,
21 Jim Kiser on behalf of Equitable Production Company. At this
22 time, we'd ask this matter be continued again
23 until...actually carried forward until the March docket.

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1 We've still got some issues that we're trying to work out on
2 this well. We should be ready to bring this application to
3 you at the March hearing.

4 BENNY WAMPLER: It will be continued without
5 objection. Do you have any other housekeeping?

6 JIM KISER: Three and four, and I think Mr.
7 Johnson's coming down for that.

8 BENNY WAMPLER: Okay, the next item...are you
9 requesting that we call both of those at this time? Are you
10 requesting that we call both of those items?

11 JIM KISER: That would be...that would be fine if
12 we can call them both.

13 BENNY WAMPLER: We have petitions from Columbia
14 Natural Resources, Inc. for pooling of a conventional gas
15 unit CNR 24655 and 24629. These are dockets number VGOB-02-
16 06/18-1038 and VGOB-02-06/18-1039. We'd ask the parties that
17 wish to address the Board in this matter to come forward.

18 JIM KISER: Mr. Chairman and members of the Board,
19 Jim Kiser on behalf of Columbia Natural Resources, Inc.

20 DONALD R. JOHNSON: Donald R. Johnson on behalf of
21 the Greene Charles Heirs.

22 MASON BRENT: Mr. Chairman, before we get started,
23 I would like to recuse myself on both of these items.

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1 BENNY WAMPLER: Thank you.

2 JIM KISER: As you all are probably aware, I think
3 we originally filed these applications in June of 2002.
4 We've been diligently working on a voluntary lease agreement
5 since that time. We are...apparently, my client has notified
6 me, and Mr. Johnson just confirmed this, that we are probably
7 within several days of having that lease executed by all the
8 various parties. I guess it's being circulated for signature
9 now. So, based upon that, my client has agreed at this point
10 to withdraw both of these petitions for force pooling as the
11 voluntary lease will cover any unleased interest that would
12 be within both of those units. Once that's fully executed,
13 then we'll have voluntary units and no need for the force
14 pooling applications.

15 BENNY WAMPLER: Mr. Johnson?

16 DONALD R. JOHNSON: Obviously, we have...we have no
17 objection to that. What Mr. Kiser has said is correct.
18 We're just on the verge of getting a lease agreement signed
19 that will cover these pooling applications.

20 BENNY WAMPLER: Okay, thank you very much.

21 DONALD R. JOHNSON: Thank you.

22 BENNY WAMPLER: Those two items are withdrawn.

23 Next on the agenda is a petition from Equitable Production

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1 Company for a well location exception for proposed well P-
2 550451. This is docket number VGOB-03-01/21...I'm sorry, 21-
3 1110. We'd ask the parties that wish to address the Board in
4 this matter to come forward at this time.

5 JIM KISER: Mr. Chairman and members of the Board,
6 Jim Kiser on behalf of Equitable Production Company. Our
7 witness in this matter will be Mr. Don Hall. We'd ask that
8 he be sworn at this time.

9 (Don Hall is duly sworn.)

10 BENNY WAMPLER: The record will show there are no
11 others. You may proceed.

12

13 DON HALL

14 having been duly sworn, was examined and testified as
15 follows:

16 DIRECT EXAMINATION

17 QUESTIONS BY MR. KISER:

18 Q. Mr. Hall, if you'd state your name for the
19 record, who you're employed by and in what capacity?

20 A. My name is Don Hall. I'm employed by
21 Equitable Production Company as a district landman.

22 Q. And do your responsibilities include the
23 land involved here and in the surrounding area?

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1 A. They do.

2 Q. And are you familiar with the application
3 that we filed seeking a location exception for well P-550451?

4 A. Yes.

5 Q. Have all interested parties been notified as
6 required by Section 4(B) of the Virginia Gas and Oil Board
7 Regulations?

8 A. They have.

9 Q. Would you indicate for the Board the
10 ownership of the oil and gas underlying the unit for well
11 number P-550451?

12 A. Pine Mountain Oil and Gas has a 100%...owns
13 100% of the oil and gas in the unit.

14 Q. And we are seeking an exception from two
15 different wells. Does Equitable have a right to operate all
16 the reciprocal wells?

17 A. Yes.

18 Q. Are there any correlative rights issues?

19 A. No. Pine Mountain owns all the oil and gas
20 in this area.

21 Q. Okay, could you explain for the Board, in
22 conjunction with the well plat that was filed as Exhibit A to
23 our application, why we're seeking this location exception?

24

1 A. Well, as you can see on the well plat, we're
2 seeking a location from P-15 and well number 121 and in
3 addition to those, we're showing P-16 and P-550356 on the
4 plat, which are greater than the 2500 foot distance, are
5 shown there for reference purposes. There's...in the area in
6 between all four of these wells, there's no place to legally
7 put a location 2500 feet from any of these wells. If you
8 move it...anywhere you move it, you're going to be less than
9 2500 feet from one of the existing wells.

10 Q. So, we're talking about a waste issue and
11 lost of reserves---?

12 A. That's correct.

13 Q. ---if the location exception weren't
14 approved now? Can you talk a little bit about well 121 that
15 the well that's 188.20 feet?

16 A. It's a little shorter than we normally would
17 space them. But that's...that's an old well that was drilled
18 in the '50s. It's...it's still an existing...it's still an
19 existing well, but it's not producing at this time, I don't
20 think. Under the regulation, we have to...since it is a
21 permitted well, we need to get an exception from that well.

22 Q. In fact, isn't it on a list to be plugged?

23 A. I believe it is.

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1 Q. Okay.

2 BENNY WAMPLER: Mr. Hall, excuse me just one

3 second, I believe you said...you mentioned 550356.

4 DON HALL: 363.

5 BENNY WAMPLER: Okay. That's what I was...okay.

6 DON HALL: Yeah.

7 BENNY WAMPLER: 550363?

8 DON HALL: Yeah, well to the east.

9 JIM KISER: It's the well to the east.

10 BENNY WAMPLER: All right, thanks. Go ahead.

11 Q. Now, Mr. Hall, could you state for the Board

12 in the event this location exception were not granted the

13 estimated lost of reserves resulting in waste?

14 A. 500 million cubic feet.

15 Q. And what's the total depth of the well under

16 the applicant's plan of development?

17 A. 5928 feet.

18 Q. Will this be sufficient to penetrate and

19 test the common sources of supply in the subject formations

20 as listed in the permit application?

21 A. Yes.

22 Q. Is the applicant requesting that the

23 location exception cover conventional gas reserves to include

24

1 the designated formations from the surface to the total depth
2 drilled?

3 A. Yes.

4 Q. In your opinion, would the granting of this
5 application be in the best interest of preventing waste,
6 protecting correlative rights and maximizing the recovery of
7 the gas reserves underlying the unit for P-550451?

8 A. Yes.

9 JIM KISER: Nothing further of this witness at this
10 time, Mr. Chairman.

11 BENNY WAMPLER: Any questions from members of the
12 Board?

13 MASON BRENT: I have one question, Mr. Chairman.

14 BENNY WAMPLER: Mr. Brent.

15 MASON BRENT: If well 121 is not active and it's
16 scheduled to be plugged, why would you move this 550451 in a
17 southerly direction to get away from...2500 feet away from P-
18 15? I mean, it puts it close to 121 that's going to be
19 plugged.

20 DON HALL: Well, 121 is probably also depleted and
21 we don't want to get back toward...close to a depleted well.
22 The spacing that we have here is geologically...according to
23 our geologist would be the appropriate place to drill from
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1 the distance from this well because of the fact this well has
2 been producing for a number of years.

3 BENNY WAMPLER: Other questions?

4 (No audible response.)

5 BENNY WAMPLER: Do you have anything further?

6 JIM KISER: Mr. Chairman, we'd ask that the
7 application be approved as submitted.

8 BENNY WAMPLER: Is there a motion?

9 JAMES McINTYRE: I make a motion that the
10 application be accepted and approved as submitted.

11 DONALD RATLIFF: Second.

12 BENNY WAMPLER: Second. Any further discussion?

13 (No audible response.)

14 BENNY WAMPLER: All in favor, signify by saying
15 yes.

16 (All members signify by saying yes.)

17 BENNY WAMPLER: Opposed, say no.

18 (No audible response.)

19 BENNY WAMPLER: You have approval. Thank you. The
20 next item on the agenda is a petition from Equitable

21 Production Company for pooling of a conventional gas unit V-
22 502738. This is docket number VGOB-03-01/21-1111. We'd ask
23 the parties that wish to address the Board in this matter to

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1 come forward this time.

2 JIM KISER: Mr. Chairman and members of the Board,
3 Jim Kiser, again, on behalf of Equitable Production Company.
4 Our witness in this matter will again be Mr. Hall.

5 BENNY WAMPLER: The record will show there are no
6 others. You may proceed.

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9 DON HALL

10 DIRECT EXAMINATION

11 QUESTIONS BY MR. KISER:

12 Q. Mr. Hall, if you'd again state your name,
13 who you're employed by and in what capacity.

14 A. My name is Don Hall. I'm employed by
15 Equitable Production Company as district landman.

16 Q. And you're familiar with the application we
17 filed seeking the establishment of a drilling unit and
18 pooling any unleased interest in the unit for EPC well
19 V-502738, which was dated December the 20th, 2002?

20 A. Yes.

21 Q. Does Equitable own drilling rights within
22 the unit involved here?

23 A. We do.

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1 Q. And prior to filing the application, were
2 efforts made to contact each of the respondents and an
3 attempt made to work out a voluntary lease regarding the
4 development of the unit?

5 A. Yes.

6 Q. And what is the leased interest of Equitable
7 within the unit?

8 A. We have 98.24% of the unit leased.

9 Q. And are you familiar with the ownership of
10 the drilling rights of parties other than Equitable
11 underlying this unit?

12 A. Yes.

13 Q. And what percentage of the unit remains
14 unleased?

15 A. 1.76%.

16 Q. And that represents the interest of Hubert
17 Don Hill and Cleda Faye Sexton Hill in Tract 3 within the
18 unit?

19 A. That's correct.

20 Q. And all the unleased parties are set out in
21 our exhibit B?

22 A. That's correct.

23 Q. In your professional opinion, was due
24

1 diligence exercised to locate each of the respondents named
2 in Exhibit B?

3 A. Yes.

4 Q. And are the addresses set out in Exhibit B
5 to the application the last known addresses for the
6 respondents?

7 A. Yes.

8 Q. Are you requesting this Board to force pool
9 all the unleased interest as listed at Exhibit B to the
10 application?

11 A. We are.

12 Q. Are you familiar with the fair market value
13 of drilling rights in the unit here and in the surrounding
14 area?

15 A. Yes.

16 Q. Could you advise the Board as to what those
17 are?

18 A. It's a \$5 bonus, five year term and with a
19 one-eighth royalty.

20 Q. Did you gain your familiarity by acquiring
21 oil and gas leases and other agreements involving the
22 transfer of drilling rights in the unit involved here and in
23 the surrounding area?

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1 A. Yes.

2 Q. In your opinion, do the terms you have
3 testified to represent the fair market value of and the fair
4 and reasonable compensation to be paid for drilling rights
5 within this unit?

6 A. Yes.

7 Q. Now, as to one interest owner within the
8 unit who has not voluntarily agreed to lease, do you
9 recommend that he be given his following statutory options
10 with regard with regard to his ownership interest within the
11 unit: One, participation; two, a cash bonus of five dollars
12 per net mineral acre plus a one-eighth of eight-eighths
13 royalty; or three, in lieu of a cash bonus and one-eighth of
14 eight-eighths royalty share in the operation of the well on a
15 carried basis as a carried operator under the following
16 conditions: Such carried operator shall be entitled to the
17 share of production from the tracts pooled accruing to his
18 interest exclusive of any royalty or overriding royalty
19 reserved in any leases, assignments thereof or agreements
20 relating thereto of such tracts, but only after the proceeds
21 applicable to his share equal, A) 300% of the share of such
22 costs applicable to the interest of the carried operator of a
23 leased tract or portion thereof; or B) 200% of the share of

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1 such costs applicable to the interest of the carried operator
2 of an unknown leased tract or portion thereof?

3 A. Yes.

4 Q. Do you recommend that the order provide that
5 the elections by the respondent be in writing and sent to the
6 applicant at Equitable Production Company, 1710 Pennsylvania
7 Avenue, Charleston, West Virginia 25328, Attention: Melanie
8 Freeman, Regulatory?

9 A. Yes.

10 Q. Should this be the address for all
11 communications with the applicant concerning any force
12 pooling order?

13 A. It should.

14 Q. Do you recommend that the order provide that
15 if no written election is properly made by a respondent, then
16 such respondent should be deemed to have elected the cash
17 royalty option in lieu of participation, in other words,
18 deemed to have leased?

19 A. Yes.

20 Q. Should the unleased respondent be given 30
21 days from the date that the order is executed to file any
22 written elections?

23 A. They should.

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1 Q. If the unleased respondent elects to
2 participate, should they be given 45 days to pay the
3 applicant for the respondent's proportionate share of well
4 costs?

5 A. Yes.

6 Q. Does the applicant expect the party electing
7 to participate to pay in advance that party's share of
8 completed well costs?

9 A. Yes.

10 Q. Should the applicant be allowed a 120 days
11 following the recordation date of the Board order and
12 thereafter annually on that date until production is achieved
13 to pay or tender any cash bonus or delay rental becoming due
14 under the force pooling order?

15 A. Yes.

16 Q. Do you recommend that the order provide that
17 if a respondent elects to participate but fails to pay their
18 proportionate share of well costs satisfactory to the
19 applicant for payment of those costs, then respondent's
20 election to participate shall be treated as having been
21 withdrawn and void?

22 A. Yes.

23 Q. Do you recommend that where a respondent
24

1 elects to participate but defaults in regard in regard to
2 payment of well costs, any cash sum becoming payable to such
3 respondent should be paid within 60 days after the last date
4 on which such respondent could have paid or made satisfactory
5 arrangements for the payment of those well costs?

6 A. Yes.

7 Q. In this particular case, we don't...it's a
8 conventional well and we don't have any unknown/unlocateable
9 interest owners within the unit. So, there is no reason to
10 set up an escrow account, is that correct?

11 A. That's correct.

12 Q. All right. And who should be named operator
13 under any order?

14 A. Equitable Production Company.

15 Q. Now, Mr. Hall, what's the total depth of the
16 proposed well under the plan of development?

17 A. 4986 feet.

18 Q. And is Equitable requesting the force
19 pooling of conventional gas reserves not only include to the
20 designated formations, but any other formations excluding
21 coal formations which may be between those formations
22 designated from the surface to the total depth drilled?

23 A. We are.

24

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1 Q. The estimated reserves for this unit?

2 A. 250 million cubic feet.

3 Q. Are you familiar with the well costs for the

4 proposed well under the plan of development?

5 A. Yes.

6 Q. Was an AFE...has an AFE reviewed, signed and

7 submitted to the Board as Exhibit C to the application?

8 A. It has.

9 Q. Was the AFE prepared by an engineering

10 department knowledgeable in the preparation of AFEs and

11 knowledgeable in particular to well costs in this area?

12 A. Yes.

13 Q. In your professional opinion, does the AFE

14 represent a reasonable estimate of the well costs under the

15 plan of development?

16 A. It does.

17 Q. Could you state for the Board both the dry

18 hole costs and the completed well costs?

19 A. The dry hole costs was \$162,056 and the

20 completed well costs will be \$268,868.

21 Q. Do these costs anticipate a multiple

22 completion?

23 A. They do.

24

1 Q. Does your AFE include a reasonable charge
2 for supervision?

3 A. Yes.

4 Q. In your professional opinion, would the
5 granting of this application be in the best interest of
6 conservation, the prevention of waste, and the protection of
7 correlative rights?

8 A. Yes.

9 JIM KISER: Nothing further of this witness at this
10 time, Mr. Chairman.

11 BENNY WAMPLER: Questions from members of the
12 Board?

13 DENNIS GARBIS: Mr. Chairman.

14 BENNY WAMPLER: Mr. Garbis.

15 DENNIS GARBIS: I have a question on the AFE. The
16 extreme right hand column. Pardon my ignorance, but you have
17 the full amount of 268 and then you have 224,000 in that
18 other column. You have there, I guess the title, subsidiary,
19 net total costs.

20 DON HALL: We have working interest partners in
21 this well and that will be...that will be our net amount.
22 The total for the well is \$268,000. But we have...Penn
23 Virginia is one of our...we have a partner---.

24

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1 DENNIS GARBIS: Is that a sub-contacted cost?
2 DON HALL: No, it's a working interest---.
3 JIM KISER: Partner.
4 DON HALL: ---partner. This is our net cost,
5 Equitable's net cost. The partners pay the remaining 16 and
6 some odd percent.
7 DENNIS GARBIS: Okay.
8 JIM KISER: And should the one unleased party elect
9 to participate, then their share would be based on the 268.
10 DENNIS GARBIS: Uh-huh.
11 JIM KISER: And it will be netted out of both
12 partners.
13 BENNY WAMPLER: Other questions?
14 BILL HARRIS: Just one question. Actually, it's
15 more of a comment. Years ago, I used to take out a
16 calculator and always figure out cost per foot. I was told
17 at the time, well, that's not really representative of what
18 it cost because there's so many other factors. You could
19 have two wells the same depth and different strata or, you
20 know, a different plat was there. I noticed that you all
21 have this on your AFE. Is that just for information purposes
22 or are you all tracking that?
23 DON HALL: I guess we're tracking for information.

24

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1 BILL HARRIS: Yeah. Thank you.
2 MASON BRENT: Ahead of your time.
3 BILL HARRIS: It might be something useful. Thank
4 you.
5 BENNY WAMPLER: Other questions or comments?
6 (No audible response.)
7 BENNY WAMPLER: Do you have anything further?
8 JIM KISER: Mr. Chairman, we'd ask that the
9 application be approved as submitted.
10 BENNY WAMPLER: Is there a motion?
11 BILL HARRIS: I move to approve.
12 DONALD RATLIFF: Second.
13 BENNY WAMPLER: Motion and second. Any further
14 discussion?
15 (No audible response.)
16 BENNY WAMPLER: All in favor, signify by saying
17 yes.
18 (All members signify by saying yes.)
19 BENNY WAMPLER: Opposed, say no.
20 (No audible response.)
21 BENNY WAMPLER: You have approval. The next item
22 on the agenda is a petition from Equitable Production Company
23 for pooling of a conventional gas unit V-502130. This is
24

1 VGOB-03-01/21-1112. We'd ask the parties that wish to
2 address the Board in this matter come forward at this time.

3 JIM KISER: Mr. Chairman and members of the Board,
4 Jim Kiser again on behalf of Equitable Production Company.
5 Once again, our witness in this matter will be Mr. Hall.

6 BENNY WAMPLER: The record will show there are no
7 others. You may proceed.

8

9 DON HALL

10 DIRECT EXAMINATION

11 QUESTIONS BY MR. KISER:

12 Q. Mr. Hall, you're employed by Equitable
13 Production Company as a landman?

14 A. That's correct.

15 Q. And do your responsibilities include the
16 land involved here and in the surrounding area?

17 A. They do.

18 Q. And are you familiar with the application
19 that we filed seeking the establishment of a drilling unit
20 and pooling any unleased interest for EPC well number V-
21 502130, which was dated December the 20th, 2002?

22 A. Yes.

23 Q. Does Equitable own drilling rights in the
24

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1 unit involved here?

2 A. We do.

3 Q. And prior to filing of the application, were
4 efforts made to contact each of the respondents and an
5 attempt made to work out an agreement regarding the
6 development of the unit?

7 A. Yes.

8 Q. Now, what was the leased interest of
9 Equitable within the unit at the time we filed the
10 application?

11 A. At the time we filed the application, it was
12 92.92%.

13 Q. And at the time we filed the application,
14 the unleased interest was 7.08%?

15 A. That's correct.

16 Q. Now, subsequent to the filing of the
17 application, have you and your land department continued to
18 attempt to reach an agreement with any unleased respondents
19 listed at Exhibit B?

20 A. Yes.

21 Q. And as a result of these efforts, have you
22 acquired any additional leases from any of these respondents?

23 A. Yes, we've acquired one additional lease.

24

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1 On Exhibit B, it would be Tract number 12, Willard Funk and
2 Katheline Funk. We've acquired a lease very recently on that
3 portion.

4 Q. And is Tract 12 on page two of three?

5 A. That's correct.

6 Q. Okay. So, we'd ask that Willard Funk be
7 dismissed---?

8 A. That's correct.

9 Q. ---as a respondent to this hearing? And
10 what would our new percentages be as far as the percent
11 leased and unleased?

12 A. It would make the new percentage leased
13 94.12%, and the unleased 5.88%.

14 JIM KISER: Are there any questions regarding that
15 before I move on? Did you get all of that, Sharon?

16 SHARON PIGEON: (Indicates in the affirmative.)

17 Q. Mr. Hall, in your professional opinion, was
18 due diligence exercised to locate each of the respondents
19 named herein?

20 A. Yes.

21 Q. And are the addresses set out in Exhibit B
22 to the application the last known addresses for the
23 respondents?

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1 A. They are.

2 Q. Are you requesting this Board to force pool
3 all remaining unleased interest as listed in Exhibit B?

4 A. Yes.

5 Q. Now, are you familiar with the fair market
6 value of drilling rights in the unit here and in the
7 surrounding area?

8 A. Yes.

9 Q. Could you, again, advise the Board as to
10 what those are?

11 A. We pay a \$5 bonus, a five year term and one-
12 eighth royalty.

13 Q. Did you gain this familiarity by acquiring
14 oil and gas leases and other agreements involving the
15 transfer of drilling rights in the unit involved here in the
16 surrounding area?

17 A. Yes.

18 Q. In your professional opinion, do the terms
19 you've testified to represent the fair market value of and
20 the fair and reasonable compensation to be paid for drilling
21 rights within this unit?

22 A. They do.

23 Q. Now, after Mr. Funk's lease, we still have
24

1 one, two...just two unleased parties, is that correct, tract?

2 A. That's correct.

3 Q. And they're both in Tract 9?

4 A. That's correct.

5 Q. No, in Tract 10. That's 9 and 10.

6 A. No, just 9.

7 Q. There's two in 9...two in 9---.

8 A. Two in 9 and---.

9 Q. ---and one in 10.

10 A. There's three---.

11 Q. So, we have three unleased parties.

12 A. Three parties.

13 JIM KISER: Mr. Chairman, at this time, as to the

14 statutory elections afforded those three unleased parties,

15 we'd ask that our testimony taken previously in VGOB docket

16 number 03-01/21-1112 regarding those statutory election

17 options and the time periods for which the unleased

18 respondents to make those elections be incorporated in this

19 hearing.

20 BENNY WAMPLER: Just to correct you on the

21 reference, it's 1111, is that correct?

22 JIM KISER: I'm sorry. Going ahead of myself.

23 1111.

24

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1 BENNY WAMPLER: That will be incorporated. Go
2 ahead.

3 Q. Okay, Mr. Hall, we don't have any...again, a
4 conventional well and no unknown/unlocateable parties. So,
5 there's no reason for a escrow account in this matter, is
6 there?

7 A. That's correct.

8 Q. And who should be named the operator under
9 any force pooling order?

10 A. Equitable Production Company.

11 Q. Now, what is this total depth of this well
12 under the plan of development?

13 A. 5480 feet.

14 Q. And is the applicant requesting the force
15 pooling of conventional gas reserves not only to include the
16 designated formations but any other formations excluding coal
17 formations which may be between those formations designated
18 from the surface to the total depth drilled?

19 A. Yes.

20 Q. And the estimated reserves for this unit?

21 A. 250 million cubic feet.

22 Q. And are you familiar with the well costs for
23 this well?

24

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1 A. Yes.

2 Q. And was an AFE...has an AFE been reviewed,
3 signed and submitted to the Board as Exhibit C to this
4 application?

5 A. It has.

6 Q. Was that AFE prepared by an engineering
7 department knowledgeable in the preparation of AFEs and
8 knowledgeable in regard to well costs in this particular
9 area?

10 A. Yes.

11 Q. In your opinion, does it represent a
12 reasonable estimate of the well costs under the plan of
13 development?

14 A. Yes.

15 Q. Could you state for the Board at this time
16 both the dry hole costs and the completed well costs for this
17 well?

18 A. The dry hole costs for this well will be
19 \$163,756; the completed well costs will be \$260,916.

20 Q. Do these costs anticipate a multiple
21 completion?

22 A. They do.

23 Q. Does your AFE include a reasonable charge
24

1 for supervision?

2 A. It does.

3 Q. In your professional opinion, would the
4 granting of this application be in the best interest of
5 conservation, the prevention of waste, and the protection of
6 correlative rights?

7 A. Yes.

8 JIM KISER: Nothing further of this witness at this
9 time, Mr. Chairman.

10 BENNY WAMPLER: Questions from members of the
11 Board? Mr. Brent.

12 MASON BRENT: Have you filed for a permit yet?

13 DON HALL: I believe...I'm not sure if we've
14 applied for this one yet or not.

15 BENNY WAMPLER: At the time Mr. Wilson prepared the
16 briefing for the Board, they had not submitted it.

17 DON HALL: I don't think we've applied for that one
18 yet.

19 MASON BRENT: I noticed your estimated production
20 for this well and the one prior was only 250 million cubic
21 feet, which is considerably less than what you've been
22 projecting in other wells. Is that a geological thing?

23 DON HALL: It's a different area. It's a
24

1 geological thing. We take the reserves...the information
2 that I have here is the information that's provided to us by
3 our geology department.

4 BENNY WAMPLER: Other questions?

5 (No audible response.)

6 BENNY WAMPLER: Do you have anything further?

7 JIM KISER: We'd ask that the application be
8 approved as submitted, Mr. Chairman.

9 BENNY WAMPLER: Is there a motion?

10 BILL HARRIS: Mr. Chairman, I move for approval of
11 the application as presented.

12 JAMES MCINTYRE: Second.

13 BENNY WAMPLER: Motion and second. Any further
14 discussion?

15 (No audible response.)

16 BENNY WAMPLER: All in favor, signify by saying
17 yes.

18 (All members signify by saying yes, except Donald
19 Ratliff.)

20 BENNY WAMPLER: Opposed, say no.

21 (No audible response.)

22 BENNY WAMPLER: You have approval.

23 DONALD RATLIFF: Mr. Chairman, I abstain since
24

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1 there's coal being involved.

2 BENNY WAMPLER: Mr. Ratliff abstains. Next we have
3 a petition from Equitable Production Company for a well
4 location exception for proposed well V-505252, docket number
5 VGOB-03-01/21-1113. We'd ask the parties that wish to
6 address the Board in this matter to come forward at this
7 time.

8 JIM KISER: Mr. Chairman, Jim Kiser and Mr. Hall
9 again on behalf of Equitable Production Company.

10 BENNY WAMPLER: The record will show there are no
11 others. You may proceed.

12

13 DON HALL

14 DIRECT EXAMINATION

15 QUESTIONS BY MR. KISER:

16 Q. Mr. Hall, again, state your name, who you're
17 employed by and in what capacity?

18 A. My name is Don Hall. I'm employed by
19 Equitable Production Company as district landman.

20 Q. And do your responsibilities include the
21 land involved here and in the surrounding area?

22 A. They do.

23 Q. And are you familiar with the application
24

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1 that we filed seeking a location exception for well V-505252?

2 A. Yes.

3 Q. Have all interested parties been notified as
4 required by Section 4(B) of the Virginia Gas and Oil Board
5 Regulations?

6 A. They have.

7 JIM KISER: I usually ask you the question of
8 identifying the ownership of the oil and gas underlying the
9 well for the unit for the particular well that we're seeking
10 the exception for. We are...if you'll note, this is another
11 Coastal Coal, both these next two. If you'll notice the next
12 hearing that we'll have is a force pooling for this same
13 well. We refer you to the Exhibit B attached of that for the
14 ownership rather than have Mr. Hall spend about fifteen
15 minutes going through it. It's somewhat of a busy unit.
16 Suffice to say that we have either a voluntary lease or
17 hopefully have a force pooling order on it, the few interests
18 that remain unleased after item nine on the Board.

19 Q. Mr. Hall, does Equitable have the right to
20 operate any reciprocal wells?

21 A. We do.

22 Q. And are there any correlative rights issues?

23 A. No, this whole area is covered by acreage
24

1 leased from Coastal Coal.

2 Q. And in the event this...can you explain for
3 the Board---?

4 A. Excuse me, or others.

5 Q. Or others?

6 A. Yes.

7 Q. And could you explain for the Board in
8 conjunction with, once again Exhibit A, which is our plat and
9 will operate as our exhibit for this particular hearing, why
10 we're seeking this exception?

11 A. As you can see, we're getting an exception
12 from V-2716 and 133796, which are two of our wells. We could
13 have gone north/northwest a little bit with that location and
14 had a location...a legal location that would have been 2500
15 feet from both. But that would have put us in an area where
16 Coastal Coal is mining and they're proposing to put a pond.
17 So, basically we're drilling this particular location based
18 on where the coal company has approved that location.

19 Q. So, our request in seeking this variance is
20 based upon coal considerations and their future mining and
21 existing mining considerations?

22 A. That's correct.

23 Q. And what's the...in the event that this
24

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1 location exception were not granted, could you project the
2 estimated loss of reserves resulting in waste?

3 A. 300 million cubic feet.

4 Q. And the total depth of this proposed well?

5 A. It's 5793 feet.

6 Q. Will this be sufficient to penetrate and
7 test the common sources of supply as listed in the subject
8 formations in the permit application?

9 A. Yes.

10 Q. Is the applicant requesting that this
11 location exception cover conventional gas reserves to include
12 the designated formations from the surface to the total depth
13 drilled?

14 A. Yes.

15 Q. In your opinion, would the granting of this
16 location exception be in the best interest of preventing
17 waste, protecting correlative rights, accommodating the coal
18 owner and maximizing the recovery of the gas reserves
19 underlying the unit for V-505252?

20 A. It would.

21 JIM KISER: Nothing further of this witness at this
22 time, Mr. Chairman.

23 BENNY WAMPLER: Any questions from members of the
24

1 Board?

2 (No audible response.)

3 BENNY WAMPLER: Do you have anything further?

4 JIM KISER: Mr. Chairman, we'd ask that the

5 application be approved as submitted.

6 BENNY WAMPLER: Is there a motion?

7 DENNIS GARBIS: I move to approve the motion.

8 MASON BRENT: Second.

9 BENNY WAMPLER: We have a motion and second. Any

10 further discussion?

11 (No audible response.)

12 BENNY WAMPLER: All in favor, signify saying yes.

13 (All members signify by saying yes, except Mr.

14 Ratliff.)

15 BENNY WAMPLER: Opposed, say no.

16 (No audible response.)

17 BENNY WAMPLER: You have approval.

18 DONALD RATLIFF: Mr. Chairman, I'm going to abstain

19 as an employee of Coastal Coal.

20 BENNY WAMPLER: Mr. Ratliff abstains.

21 BENNY WAMPLER: Next is a petition from Equitable

22 Production Company for pooling of a conventional gas unit V-

23 505252, docket number VGOB-03-01/21-1114. We'd ask the

24

1 parties that wish to address the Board in this matter to come
2 forward at this time.

3 JIM KISER: Mr. Chairman, again, Jim Kiser and Don
4 Hall on behalf of Equitable Production Company.

5 BENNY WAMPLER: The record will show there are no
6 others. You may proceed.

7 JIM KISER: This is an application seeking to force
8 pool an extremely small unleased percentage for this unit
9 that we just received a location exception for.

10

11 DON HALL

12 DIRECT EXAMINATION

13 QUESTIONS BY MR. KISER:

14 Q. Now, Mr. Hall, do your responsibilities
15 include the land involved here and in the surrounding area?

16 A. They do.

17 Q. And are you familiar with Equitable's
18 application seeking the establishment of a drilling unit and
19 pooling of any unleased interest in the unit for EPC well
20 number V-505252, dated December the 20th, 2002?

21 A. Yes.

22 Q. Does Equitable own drilling rights in the
23 unit involved here?

24

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1 A. We do.

2 Q. Now, prior to filing of this application,
3 did you and your land department make efforts to contact each
4 of the respondents and work out a voluntary lease agreement?

5 A. We did.

6 Q. What is the interest that Equitable has
7 under lease in the unit?

8 A. We have 99.993172%.

9 Q. And the percentage that remains unleased?

10 A. .006828%.

11 Q. And are all the unleased parties set out in
12 Exhibit B?

13 A. They are.

14 Q. Now, we do have some unknown owners in this
15 unit?

16 A. Yes, and unlocateables.

17 Q. Unlocateable?

18 A. Yes.

19 Q. And were reasonable and diligent efforts
20 made and sources checked to identify and try to locate these
21 unknown people including primary sources such as deed
22 records, probate records, assessors records, treasurers
23 records and secondary sources such as telephone directories,
24

1 city directories, family and friends?

2 A. Yes.

3 Q. So, in your professional opinion, was due
4 diligence exercised to locate each of the respondents named
5 in Exhibit B?

6 A. They were.

7 Q. And are the addresses set out in Exhibit B
8 to the application the last known addresses for the
9 respondents?

10 A. Yes.

11 Q. And are you requesting this Board to force
12 pool all those unleased interest listed in Exhibit B?

13 A. Yes.

14 Q. Now, are you familiar with the fair market
15 value of drilling rights in the unit here and in the
16 surrounding area?

17 A. Yes.

18 Q. Could you, again, advise the Board as to
19 what those are?

20 A. A \$5 bonus, a five year term and one-eighth
21 royalty.

22 Q. In your opinion, do the terms you've
23 testified to represent the fair market value of and the fair
24

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1 and reasonable compensation to be paid for drilling rights
2 within this unit?

3 A. They do.

4 JIM KISER: Mr. Chairman, at this time we again ask
5 that...we have four unleased parties remaining within this
6 unit representing that very small percentage and two of them
7 are unlocateable. We'd again ask that the testimony that we
8 previously...that was previously taken in hearing number six,
9 VGOB docket number 03-01/21-1111 regarding the statutory
10 election options and the unleased parties time periods and
11 responsibilities under those options be incorporated into
12 this hearing.

13 BENNY WAMPLER: That will be incorporated.

14 Q. Mr. Hall, in this particular case since we
15 do have two unlocateable interests, the Board does need to
16 establish an escrow account into which any proceeds
17 attributable to those interests can be paid?

18 A. Yes, I'm afraid so.

19 Q. Our first one today. And who should be
20 named the operator under the force pooling order?

21 A. Equitable Production Company.

22 Q. Now, what is the total depth of this well
23 under the plan of development?

24

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1 A. 5793 feet.

2 Q. And this will be sufficient to penetrate and
3 test any common sources of supply in the subject formations?

4 A. Yes.

5 Q. Are we requesting the force pooling of
6 conventional gas reserves not only to include the designated
7 formations but any other formations excluding coal formations
8 which may be between those formations designated from the
9 surface to the total depth drilled?

10 A. Yes.

11 Q. And what are the estimated reserves of the
12 unit?

13 A. 300 million cubic feet.

14 Q. And are you familiar with the well costs for
15 this well?

16 A. Yes.

17 Q. Was an AFE...has an AFE been reviewed,
18 signed and submitted to the Board as Exhibit C to the
19 application?

20 A. It has.

21 Q. Was it prepared by an engineering department
22 knowledgeable in the preparation of AFEs and knowledgeable in
23 regard to well costs in this area?

24

1 A. Yes.

2 Q. And does it represent a reasonable estimate,
3 in your professional opinion, for the cost of this well?

4 A. It does.

5 Q. Could you state at this time both the dry
6 hole cost and the completed well cost for 505252?

7 A. The dry hole cost will be \$175,026; the
8 completed well cost will be \$273,654.

9 Q. Do these costs anticipate a multiple
10 completion?

11 A. They do.

12 Q. Does your AFE include a reasonable charge
13 for supervision?

14 A. Yes.

15 Q. In your professional opinion, would the
16 granting of this application be in the best interest of
17 conservation, the prevention of waste, and the protection of
18 correlative rights?

19 A. Yes.

20 JIM KISER: Nothing further of this witness at this
21 time, Mr. Chairman.

22 BENNY WAMPLER: Mr. Hall, where is the...where is
23 the tract labeling on your well plat location? How do I find
24

1 Tract 4?

2 DON HALL: Well, it's not a label, but it's one of
3 the Evans' heirs tract at the bottom. The plat is not
4 labeled. I didn't notice that it had not been.

5 BENNY WAMPLER: If you will, resubmit the well
6 location plat with the tracts properly identified, especially
7 since we're going forward with the pooling.

8 JIM KISER: Sure. We'll supplement it with one of
9 those sheets that lays out the four tracts.

10 BENNY WAMPLER: Okay.

11 JIM KISER: It will probably be easier than redoing
12 the plat, wouldn't it?

13 DON HALL: Well, all we really need to do is---.

14 JIM KISER: Do a supplemental order identification.

15 DON HALL: The tract information is on the plat.
16 It's just a matter of numbering the plat---.

17 JIM KISER: One, two, three and four.

18 DON HALL: ---to correspond with the exhibit, I
19 think. Is that what you're talking about?

20 BENNY WAMPLER: Yes.

21 DON HALL: Okay.

22 BENNY WAMPLER: Questions from members of the
23 Board?

24

1 (No audible response.)

2 BENNY WAMPLER: Do you have anything further?

3 JIM KISER: Well, real quick, I'd just like to sort

4 of toot my client's horn. I think, from time to time, it

5 needs to be pointed out to the Board particularly, and I

6 think this month is a good example of these three force

7 poolings that we've had before you today on these

8 conventional wells, all involve units with a large number of

9 tracts and large number of royalty interest owners. I think

10 too often we forget about these things. It needs to be

11 pointed out the effort that has been made by my client and

12 their land department to obtain such a large percentage of

13 voluntary leases in these units, you know, rather than, you

14 know, just coming before you and saying we made an effort and

15 force pooling a large percentage of them. So, on their

16 behalf, I think they've, in these particular cases, deserve a

17 pat on the back. Other than that, we'd ask that the

18 application be approved as submitted.

19 BENNY WAMPLER: Thank you. Is there a motion?

20 JAMES MCINTYRE: I make a motion that the

21 application be approved.

22 DENNIS GARBIS: I second.

23 BENNY WAMPLER: Motion and second. Any further

24

1 discussion?

2 (No audible response.)

3 BENNY WAMPLER: All in favor, signify by saying

4 yes.

5 (All members signify by saying yes, except Donald

6 Ratliff.)

7 BENNY WAMPLER: Opposed, say no.

8 (No audible response.)

9 BENNY WAMPLER: You have approval.

10 DONALD RATLIFF: Mr. Chairman, I abstain being a

11 Coastal employee.

12 BENNY WAMPLER: Mr. Ratliff would abstain. Thank

13 you. We're going to take a break while you get set up for

14 the next discussion of the next two items on the agenda.

15 (Break.)

16 BENNY WAMPLER: The next item on the agenda is a

17 petition from Equitable Production Company for modification

18 of a Nora Field Order to allow for combining four existing

19 units into a single provisional unit for drilling of a

20 horizontal CBM well. This is docket number VGOB-89-01/26-

21 009-02. We'd ask the parties that wish to address the Board

22 in this matter to come forward at this time.

23 JIM KISER: Mr. Chairman and members of the Board,

24

1 Jim Kiser on behalf of Equitable Production Company. Before
2 I introduce my witnesses in this matter, I think it may be
3 advantageous to go ahead and combine ten and eleven and we
4 can explain...the differences basically are the size of the
5 provisional unit because of the two different field rules and
6 the different sizes of the existing units at this time within
7 those field rules, and the ownership, which Mr. Hall...of the
8 coal, oil and gas in each of the proposed provisional
9 drilling units, and the seam which the applicant proposes to
10 horizontally bore is different in each provisional unit. But
11 other than that, everything will be...the technology and the
12 presentation that we have for you on the technology will be
13 the same unless you just want us to go through it twice.

14 BENNY WAMPLER: I guess I'll let the Board...okay,
15 I'll go ahead and call the other item on the agenda. It's
16 VGOB-93-13/16-0348-04. This is for...from Equitable
17 Production Company, a petition to modify Oakwood I Field
18 Order to allow combining four existing units into a single
19 provisional unit for drilling a horizontal CBM well. We'd
20 ask the parties that wish to address the Board in these two
21 matters to come forward at this time.

22 JIM KISER: Mr. Chairman and members of the Board,
23 Jim Kiser on behalf of Equitable Production Company. At this
24

--

1 time, we may have additional witnesses depending upon
2 questions that the Board may have concerning these
3 applications, but initially it will be...it will be Mr. Hall
4 speaking as to how we form the units and the ownership within
5 the units, then Mr. Timothy Dugan, who has not testified and
6 does need to be sworn at this time.

7 (Timothy Dugan is duly sworn.)

8 DONALD R. JOHNSON: Mr. Chairman, my name is Donald
9 R. Johnson. I'm present here on behalf of Lon B. Rogers
10 Bradshaw Trust Number 1 and Lon B. Rogers Bradshaw Trust
11 Number 2 with regard to item eleven in the Buchanan County
12 matter that is in front of the Board. Lon B. Rogers Bradshaw
13 Trust Number 1 owns the oil and gas and the Lon B. Rogers
14 Bradshaw Trust Number 2 owns the coal underneath the areas
15 within the four units. Thank you.

16 BENNY WAMPLER: Thank you. The record will show
17 there are no others. You may proceed.

18

19 DON HALL

20 DIRECT EXAMINATION

21 QUESTIONS BY MR. KISER:

22 Q. Mr. Hall, you've previously testified before
23 the Board on numerous occasions including five occasions

24

--

1 today. You're familiar with the applications that we filed
2 on December the 20th, which seek to, in one case, modify the
3 existing field rules for the Nora Coalbed Gas Field to allow
4 for the combination of four existing units into a single
5 provisional unit of 235.08 acres to allow for the drilling of
6 a horizontal CBM well?

7 A. That's correct.

8 Q. And could you...let's take this well first,
9 lets take number nine first, the Nora well. Could you...in
10 conjunction with the two exhibits we passed out, one of which
11 is a copy of the exhibit that we attached to the application
12 showing the four combined units, and the second exhibit that
13 we passed out is a depiction of the area within which
14 production and any lateral bores can actually take place.
15 The reason that we did that...and correct me if I'm wrong,
16 but the reason that we provided the Board with that is to
17 alleviate, or curtail, any concerns they might have regarding
18 the combination of these units and the 300 foot set back and
19 the protection of correlative rights or any adjoining oil,
20 gas or coal owners, is that correct?

21 A. That's correct.

22 JIM KISER: Does everybody have those exhibits and
23 are there any questions before I move on of the ownership
24

1 within? Now, you'll notice in the application for the
2 Buchanan County well, you do have a different size
3 provisional unit. We've combined there four existing CBM
4 units under that order, which are 80 acres apiece, for a
5 total provisional unit size of 320 acres. Then we provided
6 the same, what I'll call correlative rights protection
7 exhibit, which will correlate with what...a lot of what Mr.
8 Dugan is going to show you on the technical side of this
9 later.

10 (No audible response.)

11 Q. So, if everybody's clear on that, I'll ask
12 Mr. Hall to go through and explain the...or state the
13 ownership of the oil, gas and coal in both our 235.08 acre
14 Nora provisional unit and our 320 acre provisional Oakwood
15 unit. If you'll start with item number ten in the Nora unit
16 first, please.

17 A. The four units that make up the horizontal
18 unit for the location of the Nora...in the Nora Field are
19 totally owned...oil and gas owned by Pine Mountain Oil & Gas
20 and they also own the coalbed methane of these tracts that
21 these unit encompass.

22 Q. So, there's only one royalty interest owner-
23 --?

24

--

1 A. That's correct.

2 Q. ---within the entire 235.08 acre unit,
3 right?

4 A. That's correct. And on the Oakwood units,
5 the 220 acre horizontal unit, as Mr. Johnson stated earlier,
6 the Bradshaw Trust Number 1 owns the oil and gas in this unit
7 and Bradshaw 2 owns the coal.

8 JIM KISER: Are there any questions regarding that
9 from the members of the Board?

10 BENNY WAMPLER: The only question I have is you
11 have in both of these applications Exhibit B. Are you
12 speaking to that when you're telling us ownership? Are you
13 speaking to Exhibit...your Exhibit B?

14 JIM KISER: Exhibit B was for notice purposes.

15 BENNY WAMPLER: Okay. You had...as an example, the
16 one where you just talked about Lon B. Rogers Trust 1 and 2,
17 you also have Jewell Smokeless, Jewell Ridge Coal and Consol
18 Energy down here. Is that just for notice purposes and no
19 ownership?

20 DON HALL: They have coal leases.

21 BENNY WAMPLER: They have coal leases with Lon B.
22 Rogers 1 and 2, coal or oil and gas?

23 DON HALL: Uh-huh.

24

--

1 BENNY WAMPLER: Okay. The...you refer to it, for
2 the one that Pine Mountain Oil & Gas, the Dickenson/Russell
3 County Coal Company and Paramount Coal Company, VA L.L.C., do
4 they have leases with Pine Mountain Oil & Gas?

5 DON HALL: Actually, they're the coal owner, but
6 Pine Mountain is the owner of the coalbed methane. That's
7 some of the companies that succeeded Pittston and Clinchfield
8 Coal.

9 BENNY WAMPLER: You may proceed.

10 JIM KISER: That's all I'd have for Mr. Hall.

11 BENNY WAMPLER: Okay, before you proceed then, any
12 questions from members of the Board?

13 (No audible response.)

14 BENNY WAMPLER: You may proceed.

15 JIM KISER: Our next witness will be Mr. Dugan.
16 He's going to handle a large part of the technical
17 explanation for this technique and hopefully answer, you
18 know, any questions you all might have.

19

20 TIMOTHY DUGAN
21 having been duly sworn, was examined and testified as
22 follows:

23 DIRECT EXAMINATION

24

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1 QUESTIONS BY MR. KISER:

2 Q. Before I let him go up there and begin his
3 power points, so we can clean up this combination of these
4 two petitions, am I stating it correctly, Mr. Dugan, in that
5 in item number ten on the docket, which is our application
6 for provisional unit and modification of the Nora Field,
7 which is our Russell County well, the seam that we
8 will...that we're seeking to bore horizontally is the Poca 6
9 seam?

10 A. Yes.

11 Q. And for the item number eleven, which is the
12 Buchanan County well, the Rogers well, for which we're
13 seeking to set up a provisional drilling unit and modify the
14 Oakwood 1 Field Order, the seam which we seek to...we will be
15 seeking to horizontal bore is the Poca 3, is that correct?

16 A. Yes.

17 JIM KISER: Okay. I think that probably takes care
18 of any distinguishing matters between the two different
19 units. At this point, we'll get on to Mr. Dugan's power
20 point presentation and explanation of how this process---.

21 BENNY WAMPLER: Before you...before you go up
22 there, do you need to establish his credentials or anything?

23 JIM KISER: Yes. Thank you, Mr. Chairman. If
24

--

1 you'll turn to the...you've got a lot of exhibits there, I
2 know, but if you'll turn to Mr. Dugan's resume.

3 Q. You have not previously testified for the
4 VGOB have you?

5 A. No, I haven't.

6 Q. Could you...in order to qualify you as an
7 expert in the area of engineering and operations, would you
8 please go through your educational experience and your work
9 experience background for the Board?

10 A. I have a degree as a chemical engineer from
11 the University of Pittsburgh with an option in petroleum
12 engineering. I presently work for Equitable Production
13 Company as a regional reservoir engineer. I am in charge of
14 all reservoir studies and special projects. My previous
15 experience in the oil and gas industry includes two periods
16 of employment with Cabot Oil & Gas in which I spent time in
17 drilling and completion, field work, directly involved in
18 West Virginia, Pennsylvania drilling and completing natural
19 gas wells. I also did reservoir engineering studies there,
20 pipeline work. I've got a diverse background in many of the
21 operational facets of the oil and gas industry.

22 JIM KISER: Are there any questions of Mr. Dugan
23 from the Board before we begin?

24

--

1 BENNY WAMPLER: Have you had experience in
2 horizontal drilling?

3 TIMOTHY DUGAN: No, sir.

4 Q. This is the company's first effort at
5 drilling horizontal CBM wells, is that correct?

6 A. Correct. Yes.

7 JIM KISER: Mr. Chairman, we'd ask that Mr. Dugan's
8 credentials as an expert witness in the matters of reservoir
9 engineering and oil and gas operations be accepted by the
10 Board at this time.

11 BENNY WAMPLER: Any questions from members of the
12 Board?

13 (No audible response.)

14 BENNY WAMPLER: Okay.

15 JIM KISER: And we do have some additional people
16 prepared here to testify, you know, depending on what
17 questions arise that I can call at a later time and we'll
18 bring down and swear them in and qualify them if...if we get
19 into areas that their expertise is required.

20 BENNY WAMPLER: You may proceed.

21 TIMOTHY DUGAN: Just got a brief presentation here
22 on what it is we'll be doing with these horizontal wells. I
23 wanted to start out with just some of the highlights, the
24

1 benefits of what it is we're doing. It's a very coal
2 friendly operation with minimal surface damage.

3 A horizontal well, unlike a vertical well producing
4 from the coal seam, is completed open hole. There's no pipe
5 put through the coal, so there's no steel left in the coal
6 seam when we're done. No steel in there while we're
7 producing the wells. It's completed open hole. There's no
8 stimulation of these wells. So, there's proppings and no
9 sand, no additives. There's nothing injected into the coal
10 seam.

11 The gas from a horizontal well, we're estimating
12 this gas will be produced in five to seven years. A typical
13 vertical well producing from a coal seam has an estimated
14 life of 30 to 35 years. So, we're producing the gas in a
15 much shorter period of time. We're accelerating the
16 production.

17 The coal seams are being de-gased. So, once the
18 well is done completing and the seams are mined, safe for
19 mining operations. The horizontal well, it's estimated it
20 will produce 85 to 90% of the gas in place. With a
21 conventional vertical well coal seam, the average recovery is
22 about 60%. So we're producing more gas in a shorter period
23 of time. So, with that, we're accelerating revenues for all
24

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1 parties involved. We're getting in and out much quicker.
2 With a horizontal well, we've got one well that takes the
3 place of four to five vertical wells. So, you've got one
4 well casing, less surface damage. So, it's more coal
5 friendly, surface friendly, we've got less damage all around.
6 This is just a schematic of a horizontal well, just
7 to give you an idea of what it is we're doing. We're looking
8 at coal seams that are a minimum of 36 inches thick. You'll
9 see as we get into the next slides, we're looking at seams
10 that are slightly thicker than that, 40 to 42 inch range.
11 But we drill a vertical well down to about 200 feet above the
12 coal seam. Then we start to make our turn and it takes about
13 200 feet to make that turn. Then once we...once we hit the
14 coal seam, we drill out into the coal seam. Again, it's all
15 open hole. There's no pipe left in the hole.

16 We use down hole tools. So, we're constantly
17 monitoring while we're drilling so we know where we at. It's
18 sending signals to the surface so the information is
19 recorded. We've got a gamma ray tool on the drill bit so we
20 know whether or not we're staying in the coal seam. We're
21 able to orient the drill bit, turn it up or down, left to
22 right, in any direction that we need to turn it in order to
23 stay in that coal seam. This is work that is contracted out
24

1 to a company that has...that does this...they've done 75 to
2 80 horizontal wells in the U.S., the company that we'll be
3 using for this.

4 This is just a typical schematic of one of the
5 wells, the Russell County well that we're looking at doing.
6 The actual depth of the seam is down here around 2,000 feet.
7 You can see at about 1800 feet, we start the bend. Our
8 build rate is 25 degrees per 100 foot until we hit
9 horizontal. Then as you'll see here in this...down here,
10 once we hit the coal seam, we're drilling at a slightly
11 upward angle. As we get further into this, we'll talk about
12 water production. But we're drilling at point...our well is
13 located at a point where we're drilling up dip into the coal
14 so that water, as it's produced, runs back into a sump and
15 then we can pump it out of the well. It's critical for the
16 operation of the well.

17 Again, this is the Russell County well. The lines
18 you see...the red lines you see, this is the drilling pattern
19 that we anticipate drilling in order to expose as much of the
20 coal as possible. We'll drill the main lateral, that goes
21 out there in a northwesterly direction, we'll drill that main
22 lateral first and then we pull back and we start drilling the
23 fingers. They go off the main lateral. Pull back and we'll
24

1 drill...we've got it scheduled to drill six laterals,
2 approximately 10,000 feet of horizontal hole. And, again,
3 it's designed so that we're drilling up dip into the coal so
4 all the water runs back into the well bore so that we can
5 produce it.

6 This is the Poca 6 seam. This is the 60 acre
7 spacing. The average thickness here is 42 inches. The
8 estimated top of the coal here is at 2,000 feet.

9 This is the Buchanan County well. It's a very
10 similar design. The difference here, as Mr. Kiser had
11 mentioned, is that this is 80 acre spacing. This is the Poca
12 3 seam that we'll be drilling into. Average thickness here
13 is 40 inches. The estimated top of coal is at 1870 feet.

14 This is just a schematic. Again, I talked about
15 how we would produce the water. We come down and we drill
16 our horizontal hole up dip. Once we're done drilling all of
17 our fingers, we come back and we kick back off the well bore
18 and we drill this sump hole. The water then runs back down
19 into the sump and we have a down hole pump in this sump that
20 we pump all the water out. Getting the water out is critical
21 in the operation and production of these wells.

22 This is just another schematic showing the same.
23 It's just another side view of the horizontal section. You
24

1 can see it going up dip and then the sump down here. This is
2 a little blurry. But these are just other coal seams that
3 are encountered as we're drilling through there, information
4 that's used in putting this plan together.

5 Again, points that we want to make here is the well
6 is completed open hole, no casing in the hole/in the coal
7 seam, no stimulation, no sand, no chemicals or additives,
8 nothing injected into the coal seam. The gas is produced in
9 five to seven years. You're producing 85 to 90% of the gas
10 in place as opposed to a 30 year life with a conventional
11 well and producing only 60% of the gas. So, we're de-gasing
12 the coal for safer mining operations in the future if the
13 coal company decides to go in there and mine those seams.
14 We've got one surface location minimizing the damage on the
15 surface in that one location will replace four to five
16 conventional wells.

17 DONALD RATLIFF: Mr. Chairman.

18 BENNY WAMPLER: Mr. Ratliff.

19 DONALD RATLIFF: You mentioned costs, Mr. Dugan, is
20 it...you're replacing four wells, is it two and a half times,
21 rough estimate, of a conventional vertical hole?

22 A. It's about four times.

23 MR. RATLIFF: Is it four times?

24

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1 A. This is technology that is changing
2 constantly. This is the first time that Equitable has done
3 it, but it has been done in West Virginia and Pennsylvania.
4 It's been done out in the Rocky Mountains. The technology
5 continues to change and as that technology changes, the costs
6 are obviously changing and coming down. They find better
7 ways of doing it.

8 DONALD RATLIFF: In a vertical hole, you would de-
9 gas more than one seam on this occasion and this would just
10 get one seam, right?

11 TIMOTHY DUGAN: Yes.

12 JAMES McINTYRE: How do you determine how much
13 you're draining off the 320 acres? You know, you got four 80
14 acre lots, how do you know when you get out there with those
15 feeder arms that you're not pulling somebody else's gas
16 outside the 320 acres?

17 TIMOTHY DUGAN: Well, all the laterals are designed
18 to stay within---.

19 JIM KISER: The 300 foot setback.

20 JAMES McINTYRE: Okay.

21 JIM KISER: So it would be within any statutes of
22 regulation regarding that. They can determine that with
23 their down hole.

24

--

1 JAMES McINTYRE: Formation.

2 JIM KISER: That was one big point to the way we
3 did the exhibits, was to make sure that you understood that
4 all production in these lateral fingers would take place
5 within the larger interior of the...the combined interiors of
6 the interior windows. So it will be at least 300 feet from
7 any adjoining unit lines.

8 BENNY WAMPLER: Mr. Garbis.

9 DENNIS GARBIS: Yes. For clarification, sir, what
10 was the ratio for dollar spent? Did I understand you to say
11 it was four times more expensive?

12 JIM KISER: Probably at least four times.

13 TIMOTHY DUGAN: This well here will be at least
14 four times. We're estimating it will be somewhere in
15 \$750,000 to million dollar range.

16 DENNIS GARBIS: The cost benefit?

17 TIMOTHY DUGAN: You're accelerating all the...
18 you're accelerating the production. You're accelerating the
19 revenue.

20 DONALD RATLIFF: Plus environmentally, you're not
21 disturbing---.

22 JIM KISER: You catch...get a greater recovery of
23 the gas in a shorter period of time.

24

--

1 DENNIS GARBIS: What is the diameter of the hole
2 when you go...the fingers into your main---?
3 TIMOTHY DUGAN: Six and a quarter inch hole. We'll
4 set seven inch casing just above the coal seam. Then we'll
5 drill into the coal seam with a six and a quarter inch.
6 DENNIS GARBIS: And you're not fracing it? It's
7 completely---.
8 TIMOTHY DUGAN: No, sir.
9 DENNIS GARBIS: What is a provent? Pardon my
10 ignorance.
11 TIMOTHY DUGAN: That's when you fracture a well.
12 You pump fluid in there and the sand is the prop to hold the
13 fracture open.
14 BENNY WAMPLER: Do you have a water protection
15 stream?
16 TIMOTHY DUGAN: Up hole water protection?
17 BENNY WAMPLER: Yes.
18 TIMOTHY DUGAN: Yes.
19 DENNIS GARBIS: How accurately are you able to
20 directly get the pipe stream to go where you want it to go?
21 How accurate is that?
22 JIM KISER: You mean the drill bit?
23 DENNIS GARBIS: Yeah.
24

--

1 TIMOTHY DUGAN: There is a (inaudible) gamma ray
2 tool that sits about 40 feet behind the drill bit that is
3 monitored constantly. So we get that information back in
4 real time so they are able to make adjustments as they are
5 drilling. Right now, the technology say you should need a
6 minimum of 24 inches of coal. They feel comfortable that
7 they can stay within a 24 inch seam. Being that this is our
8 first attempt at this, we use 36 inches as a minimum. But
9 again, as technology improves, that will...they will be able
10 to drill into inner seams. But right now we have an
11 (inaudible) gamma ray tool that we don't think the contractor
12 will.

13 JAMES MCINTYRE: You don't need water to drill that
14 first 2000 feet before you hit the coal seam?

15 TIMOTHY DUGAN: It will be drilled either on a
16 mist...the coal seam will be drilled on either a mist or
17 water and the only reason for that is the protection of the
18 down hole tools, to minimize vibration.

19 JAMES MCINTYRE: What will they do with the water
20 that goes into the sump?

21 TIMOTHY DUGAN: That will be when---.

22 JAMES MCINTYRE: When they pump it out, what do you
23 do with it?

24

--

1 TIMOTHY DUGAN: We will have tank capacity on the
2 surface and then the water will be hauled off to a disposal
3 well. The---.

4 JIM KISER: Russell County has an existing disposal
5 well. The Buchanan County water will be taken to Beckley,
6 West Virginia.

7 BENNY WAMPLER: Doing a directional survey is not a
8 problem for you then, to maintain the directional survey?

9 TIMOTHY DUGAN: No. That's done---.

10 BENNY WAMPLER: Will that be a part of our records,
11 part of something we will have available to us, an
12 inspection, or anybody else will have available to them?

13 TIMOTHY DUGAN: Yes.

14 BENNY WAMPLER: How much coal are you removing when
15 you create the sump and the---?

16 TIMOTHY DUGAN: I could calculate it. I don't have
17 that number with me.

18 JIM KISER: It's not very much.

19 TIMOTHY DUGAN: No.

20 BENNY WAMPLER: Is it bigger than the bore, like an
21 additional bore? Are you carving out---?

22 TIMOTHY DUGAN: No. It's just the capacity of that
23 six and a quarter inch hole.

24

--

1 JAMES McINTYRE: What's the estimated time to
2 complete the drilling?

3 TIMOTHY DUGAN: Two to three weeks.

4 JAMES McINTYRE: For all of it?

5 TIMOTHY DUGAN: Yes. They estimate they can drill,
6 once they get into the coal seam, they can drill 1500 feet a
7 day. The most time consuming part of the whole operation is
8 making the---.

9 JAMES McINTYRE: First 2000 feet.

10 TIMOTHY DUGAN: The first well or two will probably
11 take a little bit longer because we're going to be running
12 some additional wells and gathering as much information as
13 possible.

14 BENNY WAMPLER: Are there no existing wells in
15 these units?

16 TIMOTHY DUGAN: In the Russell County well.

17 JIM KISER: The Russell County unit does have four
18 existing vertical wells. The Buchanan County unit does not
19 have any CBM wells in it. I think it's got a couple maybe
20 proposed, but it's...and it does have, I think, some older
21 conventional wells in it. So the Nora well does have four
22 existing CBM well...vertical CBM wells in it.

23 KEN MITCHELL: In your drilling...and I'm not
24

1 familiar with your aquifers over here. I'm familiar with the
2 aquifers over in Stafford County, but I'm not familiar with
3 the ones over here in Buchanan County or Wise County, or
4 whatever. When you're drilling a vertical well, you would
5 have the potential only in the straight up and down scenario.
6 When you're drilling in the horizontal well, you've got six
7 fingers, at least from what I've seen from your drawing,
8 you've got six fingers and a main course down the middle.
9 What are the chances of hitting an existing aquifer and
10 hurting people's water supply either before you, after you or
11 whatever? Has that been taken into consideration?

12 TIMOTHY DUGAN: Well, all the fingers will be in
13 the coal seam. The existing aquifers that are...will be
14 protected by casing.

15 KEN MITCHELL: Do you have geographic data to show
16 that the coal seam itself is continuous and not segmental,
17 because if your coal seam runs 1000 foot, has a 10 foot break
18 and then runs another 1000 foot, depending on what happened
19 ...you know, whenever the dinosaurs died years ago, or
20 whatever, but you know, my only fear is that you could damage
21 the aquifers and I'm asking what steps are taken, or what
22 three steps, I should say, are taken to prevent water supply
23 in existing townships from being hurt?

24

--

1 JIM KISER: Well, as Mr. Wampler asked earlier, we
2 will set, as we drill down vertically, before we begin
3 building the angle to do the horizontal bore, we will set a
4 water protection string of casing there and then remember
5 that one of these seams, I think the Poca 3, is 1800 feet at
6 the top and the 6 is 2000 feet at the top. So I can't
7 imagine there's any existing aquifers that deep.

8 BOB WILSON: Mr. Chairman.

9 BENNY WAMPLER: Mr. Wilson.

10 BOB WILSON: For Mr. Mitchell's benefit, Mr.
11 Mitchell is from the eastern part of the state and the only
12 part of the state where there is fresh water at great depth.
13 In the coal fields, all studies have shown that beyond about
14 300 feet, there is no potable water in the coalfield area.
15 That has to be protected by surface casing under our
16 regulations. The fresh water zones have to be protected.
17 Once we get into the coal, we're dealing with extremely
18 saline waters that are not beneficial for our use. We don't
19 have any deep aquifers here unfortunately.

20 KEN MITCHELL: Ours are pretty deep, and we...our
21 county alone, we have several million gallons a day flows
22 into our county. So we're talking a massive amount of water.

23 JIM KISER: This is Craig Eckert. We'll be
24

1 swearing him in to address maybe some of the other Board's
2 concerns about where...how we know the coal seam extends out
3 a great distance and it's not, you know, it's going to
4 encompass considerably more than the size of these units. If
5 we could swear him in at this time.

6 (Craig Eckert is duly sworn.)

7 JIM KISER: I don't have a copy of Craig's resume
8 with me today. I can supplement the hearing with that.

9

10 CRAIG ECKERT
11 having been duly sworn, was examined and testified as
12 follows:

13 DIRECT EXAMINATION

14 QUESTIONS BY MR. KISER:

15 Q. But if you will just go through your
16 educational background and work experience for the Board and
17 then answer the question they had concerning the---.

18 A. Okay. My name is Craig Eckert. I've got
19 over 20 years experience as a geologist in the oil and gas
20 industry. My degree is from West Virginia University, '79.
21 I've worked for Equitable for several years as a petroleum
22 geologist. I've worked for Consolidated Natural Gas. I've
23 worked for Ashland. I've worked for Meridian Exploration.

24

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1 I've worked in the Appalachian Basin as well as international
2 in my career. I've spent most of my career in the last
3 several years with Equitable working on the coalbed methane
4 project in the Nora Field. So I have fairly extensive
5 experience in that regard. I'm working in that capacity at
6 the present time as well.

7 JIM KISER: Mr. Chairman and members of the Board,
8 we'd ask that Mr. Eckert's qualifications as a expert in the
9 field of geology be accepted by the Board.

10 BENNY WAMPLER: Go ahead and proceed.

11 Q. Could you sort of address the sort of
12 combined question that they had and sort of talk about the
13 different isopach maps that you've put together regarding
14 these coal seams and the breadth of this seam?

15 A. Sure. In the Nora Coalbed Methane Field, we
16 have well over twenty coal seams that we can produce coalbed
17 methane from. Thicknesses vary anywhere from just a few
18 inches to well over three feet. Most of the coal seams
19 average about a foot to two feet in thickness over large
20 areas of the field. Any given well will produce coalbed
21 methane gas from...anywhere from five to ten coal seams.
22 Again, the average thickness of these seams is generally just
23 a foot to maybe two feet in thickness. So, most of the seams
24

1 aren't going to have appreciable enough thickness for
2 horizontal drilling to be applicable. But in just about
3 every seam, there are areas where the coals do thicken up to
4 over three feet where they could be...they could be
5 candidates for horizontal drilling.

6 The area where we will be proposing to begin in the
7 southeastern part of our Nora Field, the Pocahontas 3 does
8 thicken up to well over 40 inches over many hundreds of
9 acres. So, it makes sense to start here with this pilot
10 project for us in Virginia. We have identified through our
11 isopach mapping throughout the field, as I've said, many
12 other seams that could be...this same technology could be
13 applied to because the thicknesses are sufficient.

14 BENNY WAMPLER: If you produced from the other
15 seams, would you use this same hole? In other words, let's
16 say you decided to go, but if you started Poca 6, are you
17 going to combine 4 and 3 on up?

18 CRAIG ECKERT: In most cases we won't have...we
19 won't have a thick Pocahontas 3 and a thick Pocahontas 6 in
20 the same area that you can attack from the same vertical well
21 bore. So, there may be some overlap cases. But for the most
22 part, I think if we have a thick Poca 3 here, it's going to
23 be thick in the Poca 6 in another area. So there could be

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1 areas where we...where we would be able to enter two
2 sufficiently thicken the coal seams by the same vertical
3 well. But that will be an unusual---.

4 TIMOTHY DUGAN: With the present technology, we
5 would use two separate bore holes to do two separate seams.
6 We would anticipate in the future that somewhere down the
7 road, we will have the ability to enter multiple seams from
8 the same well bore. But at present, that would be two
9 separate holes.

10 DENNIS GARBIS: That was kind of my question
11 because you showed a slide there with, I guess, a number of
12 seams, and it appears to me, and I don't vertically how far
13 you'll be able to extract the gas, you know, within a radius
14 of the hole. So, have you considered...how do you get to
15 that gas that's in those seams also? In other words, I think
16 this is...I like this idea. I think it's creative. That's
17 what engineers are suppose to do. So, the question is then,
18 what about the gas that lays below or above that in these
19 other seams? Have you considered...how can you go after
20 that? I don't want to leave anything behind.

21 CRAIG ECKERT: Well, we're going to continue with
22 our vertical CBM program where we will be able to stimulate
23 the seams that are much thicker than three feet. As I said,

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1 there's up to twenty coal seams that we could penetrate that
2 would be, you know, maybe one to two feet in thickness that
3 we will still produce coalbed methane from...in the way that
4 we have been doing over the last twenty years. It's these
5 unusually thick seams that we're talking about today that we
6 will be able to actual put a horizontal well bore into.

7 DENNIS GARBIS: So, you will have to go back and do
8 those other four or five that you're talking about? You'll
9 still have to do those, but those would be vertical---?

10 CRAIG ECKERT: Right.

11 DENNIS GARBIS: ---to get to those---?

12 JIM KISER: To produce the gas in the thinner
13 seams.

14 DENNIS GARBIS: Right. It makes sense.

15 JIM KISER: Yeah, this won't completely take the
16 place of a vertical CBM well.

17 DENNIS GARBIS: How do I...how do I know that
18 you're going to come back and get all that gas? I mean,
19 obviously, you're going to take...you're going optimize your
20 efforts for that three foot seam. What would your plans be
21 to go back and make sure you get those other seams, although
22 albeit this is thirty years versus five and seven in the age
23 of instant gratification. I can understand you'd want to go
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1 that direction?

2 CRAIG ECKERT: It's still in...it's still in our
3 best interest economically as well as the royalty interest
4 holder's best interest to develop the thinner coals at the
5 same time we're continuing with the horizontal program.

6 DENNIS GARBIS: So in the perfection of correlative
7 rights, how would...if we look at this as four...these four
8 as one big...one unit, if you will, and you go...how are we
9 going to deal with the...how do you propose to deal with the
10 individual vertical well versus the horizontal?

11 JIM KISER: I'll sort of address it in my limited
12 fashion first and then let these two technical guys talk
13 about it. The reason we picked these first two units because
14 we...obviously, as you probably know from Don's testimony, is
15 because we only have one coal, oil and gas owner. So, we
16 don't have any kind of royalty allocation issue. I think...
17 and correct me if I'm wrong, I think if these are successful,
18 the next few that are planned are in the same situation. One
19 of the reasons we have done it that way is to be able to
20 gather data from these initial wells to be in a position to
21 be able to deal with that in the future part...for instance,
22 in this particular Nora unit that we're seeking to have the
23 bigger provisional unit established in, the four vertical

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1 wells are open in the...in this case in the Poca 6. If we
2 had the situation where we had more...if we had different
3 royalty owners within...we don't have it here, but if we had
4 it different royalty owners within those four individual
5 vertical units, then depending upon, you know, what time...
6 all four of those wells obviously would be drilled at a
7 different time and we would have to use down hole or use
8 production logs with down hole surveys, whatever the
9 technical terms are that these guys can talk about, to
10 determine what the proper allocation offset, or whatever the
11 situation may be, to the differing royalty owners so that we
12 achieve a fair and equitable distribution of those royalties.
13 One of the primary reason...we know we're going to probably
14 eventually run into that. One of the primary reasons we're
15 starting off with these units that only have one royalty
16 owner is to be able to gather enough data and technology to
17 be able to do that properly.

18 BENNY WAMPLER: Since you testified, why don't you
19 go ahead and be sworn?

20 JIM KISER: Do you want to swear me in?

21 BENNY WAMPLER: Yeah.

22 JIM KISER: I'm fine with that.

23 BENNY WAMPLER: Just in case there's questions on
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1 your testifying.

2 (Jim Kiser is duly sworn.)

3 DONALD R. JOHNSON: Mr. Chairman, if I can
4 make...if I can make one comment. My only concern about this
5 is that you don't pool the entire area for every seam. That
6 you only pool for the seam that's being taken care of. In
7 other words, the Poca 3 in the case of my client. So, that
8 you don't have to come back and ask for modifications of this
9 order if you're going to do other seams. That's my only
10 suggestion to the Board with regard to this project. It
11 seems that if you...if you only do this for the Pocahontas
12 Number 3 seam or the Pocahontas Number 6 seam, I don't have
13 anything to do with that project, just for the seam that's
14 involved. Then if you come back and do vertical holes at a
15 later time for other seams, then you won't have to come back
16 and ask for a modification of the order you just entered.
17 That's my only suggestion to the Board, and really my only
18 comment about this. We really are only taking care of one
19 seam. We're only dealing with one coal seam.

20 BENNY WAMPLER: Mr. Kiser, do you have anything to
21 say about your...address your request to this Board in
22 regards to that request.

23 JIM KISER: Yeah. We are...we're only asking for
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1 the provisional unit and for the right to horizontal bore the
2 one seam. That's all we've asked for in the application.
3 That's Poca 6 in the Nora Field and the Poca 3 in the
4 Buchanan Field.

5 BENNY WAMPLER: Mr. Garbis.

6 DENNIS GARBIS: Again, if I were to get a cross
7 section of that six and whatever inch pool how much...what
8 would be the radius that you would expect to draw gas from?
9 In other words, as you advance, you take a cross section and
10 would it extend out regularly 10 feet, 50 feet, a 100 feet?

11 CRAIG ECKERT: Well, I think we're planning that
12 the horizontal pattern will essentially drain an area
13 approximately the size of our...in the case of Nora, 240 acre
14 unit; and in the case of the other area, 320 acre unit.
15 We're going to stay 300 feet away from the unit boundary so
16 that we don't infringe upon the drainage from enabling
17 potential future units with horizontal drilling. So, I mean,
18 the intent to, as best we can, efficiently drain just that
19 area that we're designating as the unit for that horizontal
20 well.

21 DENNIS GARBIS: Go ahead.

22 TIMOTHY DUGAN: If I may address that a little bit,
23 we had an outside engineering firm do engineering study in
24

1 production modeling of these coal seams. One of the
2 things... items they looked at for us was the spacing of
3 these laterals, the most economical spacing; the effect of
4 spacing these laterals closer to each other. We have just
5 three on each side. They're about 750 to 900 feet apart,
6 that's estimated through this modeling that was done that we
7 cover that gas in five to seven years. We could put those
8 laterals much closer. The only difference being that we
9 recover the gas sooner. So, we will affect our goals to
10 affect the entire unit.

11 DENNIS GARBIS: Well, my concern is that if you're
12 talking...I mean, if that's your spacing, so you're talking
13 in the 100's of feet radius. So what does that do to the
14 other layers of the coal seams, the gas that you attempt to
15 get out in a future date? So, in other words, if you're
16 looking at a 500 foot radius, am I going to be impacting the
17 ability to...and I guess the correlative rights issue, maybe
18 I'm not articulating this very well. But if you were to, as
19 an example, have a scale drawing of...oh, this is the scale.
20 So, if you're talking about...as this advances and you draw
21 a cross section, I'm going to be drawing gas from above it
22 and below it---.

23 CRAIG ECKERT: No.

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1 DENNIS GARBIS: Why not?

2 CRAIG ECKERT: Each seam will contribute...you
3 should not have communication from one seam to the next.

4 DENNIS GARBIS: In other words, you're saying that
5 it will stay strictly...you'll drain strictly from that three
6 foot seam?

7 CRAIG ECKERT: Yes. Yes, that's correct. That
8 is...that's consistent with out understanding and, you know,
9 studies that have been done on drainage characteristics of
10 holes basin wide and worldwide. I mean, in order to produce
11 out of another coal seam, we would have to enter that bore
12 hole either by the perforating at that interval and then
13 injecting fluids for treatment or a horizontal drain hole.

14 DENNIS GARBIS: I mean...I don't know. I'm asking
15 the question. So, basically you're saying that the rock
16 strata above and below that isn't produced?

17 CRAIG ECKERT: That's correct. For all intents and
18 purposes, that's correct.

19 DENNIS GARBIS: Well, that answers my question.

20 CRAIG ECKERT: Okay.

21 BENNY WAMPLER: What does this do to the economics
22 of your drilling program to other gas owners? Going back to
23 the question, would you continue the vertical holes once you
24

1 got the horizontal...what's the economics of this? What data
2 have you all relied on to...because surely you looked at the
3 economics. Clearly you have when you say, you know, your
4 cost is going to be about four wells worth of cost here.
5 What does this do to the economics? You know, here again,
6 let me clarify it. Tell us about the data you relied on to
7 come up with these projects, because really the field rules
8 we have out there don't mean anything as far as this project
9 goes. You're just staying within...you're just using them to
10 stay within those windows until you pilot this thing.
11 But---.

12 JIM KISER: Yeah, these are provisional units.

13 BENNY WAMPLER: Right. Right. But what...what
14 data have you relied on and then what...that's one question,
15 and then the second question is, what does this do for the
16 economics for the gas owners above this seam that you've
17 targeted?

18 TIMOTHY DUGAN: The...all of our economic modeling
19 that has been done so far was all based on the results of the
20 study and production modeling that was done by an outside
21 engineering firm. The...obviously there's...we're doing this
22 to gather more information in the hopes that it's going to be
23 successful and we can continue on.

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1 As Mr. Eckert said, the up hole seams, those will
2 still be targeted through...many of those seams will still be
3 targeted through vertical wells. So, the economics of those
4 seams should not change.

5 BENNY WAMPLER: Well, of course,---.

6 JIM KISER: I think---.

7 BENNY WAMPLER: ---you know, I guess I realize the
8 Poca seam is the hottest seam you've got. When you take that
9 out of the equation, it just comes to mind what will happen
10 to the ones above that?

11 CRAIG ECKERT: If I could address that. I'll speak
12 for the Nora Field primarily because I think the same comment
13 is going to apply for our other areas. I mentioned before we
14 have twenty or so coal seams that are productive throughout
15 the field. Depending where you where in the field, different
16 coal seams are more productive or the most productive.

17 They're not necessarily the same coal seams that are the most
18 productive in another part of the field. The Pocahontas 6,
19 although it's very thick here, isn't necessarily the most
20 productive in this particular area. That may have to do with
21 the fact that it's lower...it's the lowest seam in the hole
22 because these wells produce a lot of water, it's often times
23 below the fluid level. So, as we're pumping the gas...the

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1 water off, it may not be producing as much as some of the
2 other seams which are not under water. We...we have, you
3 know, wells all over the field that have, you know, thick
4 coals that are known to be very productive in just isolated
5 areas. So, I don't think that by drilling horizontal wells,
6 it's going to take away from our incentive to continue with
7 our vertical drilling program. That's...I see it as a
8 completely different drilling program that's...that stands
9 alone on its own economic merit. We'll want to continue, you
10 know, as we proceed jointly with horizontal drilling.

11

12

CRAIG ECKERT

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DIRECT EXAMINATION

14 QUESTIONS BY MR. KISER:

15 Q. And let me just ask you a couple questions.

16 I think I understand where Mr. Wampler is going with this.

17 This horizontal...these horizontal wells and these initial

18 pilots wells and then if they're successful, any additional

19 wells you might drill...might drill are not intended to

20 replace the vertical CBM program, but rather to supplement

21 it, is that correct?

22 A. That's correct.

23 Q. And you don't have to give me any numbers or

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1 anything because we're on public record here, but would it be
2 your testimony that, at least for the budget year 2003, that
3 your company's plans in the area of drilling vertical CBM
4 wells would be similar or possibly.....or even more
5 additional wells than what you drilled in 2002?

6 A. Yes.

7 Q. That would be correct?

8 A. That's correct.

9 DONALD R. JOHNSON: Mr. Wampler, one thing I wanted
10 to say about that. I feel like...you know, when you talk
11 about gas owners and coal owners, you know, normally...well,
12 these are all below drainage wells and below drainage coal
13 seams are involved. Normally, there's only one owner of coal
14 below drainage and normally there's only one gas owner. It
15 seems to me that if this project is beneficial to royalty
16 owners because of the volume it produces over a short period
17 of time, certainly it's going to enhance their revenues. If
18 there's any downside, that perhaps a well or two won't get
19 drilled, it seems to me that that's something that may or may
20 not happen somewhere down the road. But it's seems that the
21 impact of royalty income based on production...high
22 production from one well is going to outweigh the possibility
23 that other wells may or may not get drilled because, you

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1 know, you're benefitting one owner. That owner is going to
2 recover more reserves out of one well than he will out of
3 probably five or six wells. The testimony has been that
4 you're only going to drill one well and your recovery is
5 going to be about 90%, and it's going to be quicker. So, the
6 revenue stream is going to be enhanced. It's not going to be
7 deflated by virtue of this project. Hopefully, the
8 assurances that we've gotten that other...that other well...
9 that the vertical programs will continue seems to be
10 significant. Thank you.

11 JIM KISER: And don't forget the State will benefit
12 from this too in the area of severance tax collection. As I'm
13 headed to Richmond, I'm sure that's a point I'll need to
14 make.

15 TIMOTHY DUGAN: One other point I'd like to make,
16 with these wells being...the gas being produced in five to
17 seven years, you still have that vertical section of hole in
18 five years that you can set a temporary plug and going in a
19 produce some of the other coal seams if you choose to do so.
20 You've already got the well bore in place. So, for that
21 particular well, the economics may even be more favorable for
22 some of the thinner seams.

23 BENNY WAMPLER: For that---.

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1 JIM KISER: Through the same bore?

2 TIMOTHY DUGAN: Uh-huh.

3 JIM KISER: Yeah.

4 BENNY WAMPLER: For those units where you have

5 existing wells and you plan to use this technology, do you

6 plan to plug those existing vertical wells?

7 TIMOTHY DUGAN: At this point, no.

8 BENNY WAMPLER: Are you---?

9 TIMOTHY DUGAN: We are using...going to use the

10 opportunity to drill these first couple of wells to gather as

11 much information as possible through production logs, down

12 hole logs, electronic logs to gather as much information as

13 possible. So, those items can be addressed.

14 BENNY WAMPLER: One would assume that the coal

15 operators would prefer to have one well versus four or five,

16 or what have you. Have you had discussions with them about

17 ...any of the coal operators about this technology and any

18 concerns that they've raised?

19 TIMOTHY DUGAN: We had a meeting with Consol and

20 met with them about this...about the Buchanan County well.

21 They themselves have drilled horizontal wells, not in

22 Virginia. They've done some in West Virginia. They were

23 very much in favor of this.

24

1 BENNY WAMPLER: Is that because you don't have the
2 fracing and you have fewer wells to deal with?

3 TIMOTHY DUGAN: Fewer wells, no fracing and de-
4 gasing the coal.

5 JIM KISER: We talked with Mr. Morgan with Consol
6 on the Nora well and with Mr. Whitt with the Rogers property
7 on the Buchanan County well.

8 BILL HARRIS: Mr. Chairman, I have a question---.

9 BENNY WAMPLER: Mr. Harris.

10 BILL HARRIS: ---about the vertical wells that
11 we're talking about. Of course, there are four, I guess,
12 there are already drilled here in the...is that the Nora or
13 whichever?

14 JIM KISER: Uh-huh, Nora.

15 BILL HARRIS: Yeah. It's already there. In the
16 future, just hypothetically, would you not drill the vertical
17 well into this seam or would just go ahead and drill it
18 anyway and just...I mean, I would think that the...you know,
19 when you talk about correlative rights and who owns what
20 property. I mean, would there be a problem there with both
21 wells be drawing from that seam?

22 TIMOTHY DUGAN: Well, I would think if the
23 horizontal wells are successful, we will continue with the

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1 vertical wells. But they may not penetrate...or they may
2 penetrate but they will not produce from the Poca 6 or
3 whatever seam is producing through the horizontal---.

4 JIM KISER: We wouldn't open to the same seam that
5 the horizontal bore is.

6 BILL HARRIS: Yeah. Because I would think that
7 there could be---.

8 JIM KISER: Then that way....you could avoid the
9 allocation problems that way.

10 DENNIS GARBIS: Going back to that same issue, Mr.
11 Dugan, some of the previous wells you drilled to 5,000 feet.
12 This is at 2100 feet.

13 JIM KISER: Those are just conventional wells.
14 5,000 foot would be a conventional well.

15 DENNIS GARBIS: So, in the future, in a different
16 case where you were to use this program, your vertical wells
17 would penetrate how far?

18 CRAIG ECKERT: 2,500 feet on the average in the
19 case of the Nora Field---.

20 DENNIS GARBIS: Well, would you go through the---?

21 CRAIG ECKERT: We may...for future wells we would
22 ...we would quite possibly penetrate this horizon for depth
23 control for our structure mapping and so forth. But we would
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1 not...we wouldn't have a reason to produce if we already had
2 the horizontal drilling system in place for that seam. We
3 would have no reason attempt to produce---.

4 JIM KISER: Spend the money in producing it.

5 CRAIG ECKERT: Yeah, spend the money to produce
6 from the vertical wells.

7 DENNIS GARBIS: Mr. Chairman, I guess there's a
8 lingering doubt in my mind that there would be adequate
9 development in the vertical sense. Notwithstanding all the
10 testimony up to this point, I guess in my own mind, I'm just
11 not clear on...maybe there hasn't been sufficient assurances
12 that if you go this direction, that some potential owners of
13 the mineral rights would be protected in the vertical sense
14 because if you're taking it out the primary source of the
15 energy and source of the gas, how do we know that the other
16 people are going to be protected by---?

17 DONALD R. JOHNSON: There aren't any other people.
18 People don't live vertically. They live horizontal.

19 DENNIS GARBIS: Well, that's what I'm saying. But
20 I mean for the standpoint of the vertical wells.

21 DONALD R. JOHNSON: The same people. The same
22 people getting the cash, whoever it is.

23 BENNY WAMPLER: Well, he's talking about the owners
24

1 of the coal seams above.

2 DONALD R. JOHNSON: Right. Right, that's what I'm
3 saying. All...they're all the same people.

4 JIM KISER: That's what Mr. Johnson, the point he
5 was trying to make earlier, I think in large part probably
6 98% of the time, we do a lot of title work in Southwest
7 Virginia, there's very little horizontal severance of the
8 coal. Now, there are occasions where there will be one or
9 two seams that are owned by different parties. So, that
10 situation could arise. But other than that, like he said,
11 you're talking about the same people. If this turns out to
12 be successful, those people are going to be, you know, doing
13 flips because they're getting their money a whole lot faster.
14 And I don't know what we can do other than testify on the
15 record that there's no plan at this point for these
16 horizontal wells to completely replace the vertical well
17 program.

18 BENNY WAMPLER: Is that presumption that the coal
19 owner owns the gas?

20 DONALD R. JOHNSON: It doesn't matter who owns the
21 gas. Whoever is going to benefit by the wells is going to
22 get benefit out of the Poca 3 well. The coal owners are
23 going to be the same and the gas owners are going to be same

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1 for all horizons. That's the same situation we have when we
2 do what Jim's talking about when he talks about the deeper
3 seams, talking about the 5,000 foot wells. Somebody is
4 selecting those as being the best producing wells in those
5 horizons and they are being produced by conventional well
6 technology that has been around for a hundred years. The gas
7 owners who own the gas are going to participate in those
8 wells that are 500 feet deep.

9 You go to higher horizons where there are coal
10 seams and gas...and gas coming out of these coal seams, the
11 gas owners are the same and the coal owners are the same.
12 It's a matter of when they get their money and where do they
13 get it from. It's not a matter of, you know, are they being
14 protected.

15 My client would be...our clients would be very well
16 served by this project to see if it works, firsthand.
17 Secondhand is yes, there's some risk that they may not get
18 the upper seams developed. But on the other hand, this
19 project is going to work for them because there will be no
20 coal objections. It's going to go to the Poca 3 seam.
21 There's not going to be any...any...any substantial drilling
22 into the Poca 3 seam that's going to leave any...any tubing,
23 any metal there. It's going to be very...it's going to be

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1 very beneficial. But as you look uphill...you go uphill from
2 the Poca 3, you've got the same gas owners and the same coal
3 owners, more or less, all the way until you get to the
4 drainage level. If there's going to be any diversion in the
5 coal seams from ownership, it is normally from the above
6 drainage seams are the ones that are going to be separated
7 deeded. Not below drainage.

8 JIM KISER: It will be the shallow seams.

9 DONALD R. JOHNSON: Yeah, the shallower seams that
10 are in the mountaintops. When you get to the drainage level,
11 which is what we're really talking about, we're talking about
12 below drainage gas and below drainage coal, those are always
13 ...I've never seen it any different. I could be sworn to.
14 But I've never seen those---

15 BENNY WAMPLER: I was going to do that.

16 DONALD R. JOHNSON: Uh?

17 BENNY WAMPLER: If you will, go ahead since you're
18 testifying.

19 DONALD R. JOHNSON: I've never seen those split.

20 BENNY WAMPLER: Let's get you sworn for your
21 testimony.

22 (Donald R. Johnson is duly sworn.)

23 BENNY WAMPLER: The question is those upper, above
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1 drainage owners was the purpose of us asking some of the
2 questions we're asking. Do we...are we eliminating them
3 here?

4 DONALD R. JOHNSON: They don't get anything. Above
5 drainage owners don't get anything because there's no gas
6 there. There's coal there. There's no gas there. I
7 think...I don't know. What is the...what is the deepest
8 strata that you all are producing coalbed methane, or the
9 shallowest strata you're producing coalbed methane from?

10 CRAIG ECKERT: Well, it varies. But our rule of
11 thumb, and I think this is standard throughout Appalachian at
12 least, we will not...we will not attempt to produce gas from
13 any pools that are within 500 feet of the shallowest
14 drainage. In other words, if there is a creek running
15 through that's at...let's say the elevation is at 2100 feet
16 or 2,000 feet, then 500 feet below that would be the
17 shallowest hole that we would attempt to complete. Now, I
18 mean, there's coal structure all through the fields. So,
19 that shallowest coal seam changes from place to place. But
20 we don't attempt to complete anything that's shallower than
21 500 feet below the nearest drainage.

22 BENNY WAMPLER: Other questions?

23 (No audible response.)

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1 BENNY WAMPLER: Mr. Wilson, are all your concerns
2 addressed here?

3 BOB WILSON: Yes, sir. Putting on my VGO
4 director's hat for a minute as opposed to my Board hat, I'd
5 like to say that Virginia has been at the forefront of a lot
6 of things that have developed in coalbed methane over the
7 years. This being proposed here is brand new technology.
8 This wasn't being done three years ago. The logging while
9 drilling technology so that you know exactly where the bit
10 is, is brand new technology. It's stuff that has just been
11 developed and is in the process of being developed. I think
12 these operators...this operator has chosen an excellent place
13 to test this in Virginia. There are, I think this is by
14 design, no correlative rights problems involved here. There
15 are areas that are completely virgin to coalbed methane
16 production. There's no area that already has bore wells in
17 it. I think it's an excellent test ground.

18 I would like to, again under my mandate and loth as
19 I'm suppose to foster, promote and encourage this industry, I
20 would be very, very encouraging to approve this particular
21 operation as opposed as a provisional unit, as a provisional
22 status. I think it's an excellent opportunity to gain some
23 knowledge to the company for the department and for the Board

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1 under these very controlled situations.

2 The other part of our mandate at the Division of
3 Gas and Oil, of course, is see that all of this stuff is done
4 safely and without damage to the environment or the public
5 health and safety. We're going to take care of that
6 regardless of whether the well is straight up and down or
7 horizontal. The water protection issues are covered in
8 regulation statute. We'll see to it that all of this is
9 taken care of. The water disposal issues are covered in
10 statute and regulation. We would be covering that aspect of
11 it.

12 So, I think the thing before the Board really boils
13 down to whether or not they think this is a proper project
14 insofar as the Board's mandate to establish field rules and
15 protect correlative rights. I realize that some of the
16 questions here have gone into economic issues, which we're
17 not ever going to be in a position to go out and tell
18 somebody they have to drill a well in a particular unit. I'm
19 not sure that if the horizontal well is drilled and then
20 there's a decision not to drill a vertical hole in a
21 particular unit, again, those reserves are not damaged in
22 that upper section of the hole. It's still there. This is a
23 decision we don't ever get involved in anyway because we

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1 can't go out and tell anybody you must drill this unit so
2 these people can pay. It would be same thing (inaudible).

3 I would, again in my other position, like to see
4 this go through so that we can join the...or stay actually,
5 in a position of the forefront of the coalbed methane
6 development. Our reserves and our production has been
7 steadily increasing for the past...well, since this whole
8 program started being on its pace. I think this particular
9 type of technology could see that that continues. We do
10 recover more reserves that are in the ground and that's our
11 ultimate objective, really, if we're going to drill a hole,
12 let's get as much out of the ground as we can.

13 MASON BRENT: You just presented the official DMME
14 position?

15 BOB WILSON: I just presented the official Bob
16 Wilson position.

17 DENNIS GARBIS: And you weren't very ambiguous
18 about it either.

19 MASON BRENT: Just for my own clarification---.

20 BENNY WAMPLER: Mr. Brent.

21 MASON BRENT: ---really, what we're dealing with
22 here is a request for a modification of the field rules---.

23 BENNY WAMPLER: Right.

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1 MASON BRENT: ---to accommodate this new
2 technology. But where do you have to go other here? I mean,
3 is there any other...any other approval to meet to---?
4 JIM KISER: Well, we'll have to get a permit from
5 Bob's office.
6 MASON BRENT: And that's it?
7 (No audible response.)
8 DENNIS GARBIS: So, what are you asking for
9 specifically?
10 JIM KISER: We're asking you to, in these two
11 instances to modify, one, the Nora Field Rules to allow us to
12 combine four units to establish a provisional drilling unit
13 of 235.08 acres so that we can drill a horizontal CBM well
14 within that provisional unit; and in the case of the Buchanan
15 County well, we're asking that you modify that Oakwood I
16 Field Rule to allow us to combine four 80 acre units into a
17 provisional unit to drill a horizontal CBM well.
18 BENNY WAMPLER: In both cases, you're staying as
19 far as the horizontal hole will be inside the window and
20 your---?
21 JIM KISER: Laterals will be inside the window.
22 BENNY WAMPLER: ---be inside the window?
23 JIM KISER: Correct.

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1 MASON BRENT: I'm just assuming that DMME is co-
2 sponsoring this presentation.

3 BENNY WAMPLER: I started to point that out.

4 DENNIS GARBIS: I noticed that to. It was right on
5 the front packet there.

6 JIM KISER: We have had several...I guess, at least
7 two meetings with Bob and his inspectors and, you know, hash
8 out a lot of these issues in advance of this. They have been
9 helpful in identifying some issues for us. I appreciate his
10 comments.

11 BENNY WAMPLER: Other questions from members of the
12 Board?

13 BOB WILSON: Mr. Chairman, I would point out one
14 little thing that I have noticed about this that I'm not sure
15 if you folks need to address. There was some talk at one
16 time that you actually might wish to spud the well outside
17 the window but have it encounter the coal seam inside the 300
18 foot setback. And if that's case, there would need to be...
19 that would need to be addressed in the field rules as well
20 because right now there has to be an exception for the well
21 if it's outside the window.

22 JIM KISER: Right. We would like some flexibility.
23 We don't need it apparently in these two cases because we've
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1 decided to begin the vertical bore inside the interior
2 window. But we could begin it outside the interior window
3 but then not build our angle and not actually start the
4 horizontal bore until we get inside the window because it
5 takes several hundred feet to do that. So, there may be some
6 instances in the future---.

7 BOB WILSON: But if you don't need it for this,
8 that's a mute point.

9 JIM KISER: We don't need it for this, yeah. I
10 appreciate that.

11 BENNY WAMPLER: Yeah, let's keep it just for this.

12 JIM KISER: Yeah.

13 DENNIS GARBIS: A case by case basis.

14 JIM KISER: Right.

15 KEN MITCHELL: Mr. Chairman, I would like to
16 request that, and it has already been addressed, it's already
17 on the record, but I want to make it specifically on the
18 record, that we are dealing with the one seam here?

19 JIM KISER: Yes.

20 KEN MITCHELL: I want that very---.

21 JIM KISER: The applications do state that very
22 clearly. In the case of the Nora application, it will be the
23 Poca 6 seam. In the case of the Oakwood application, the

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1 Poca 3 seam.

2 KEN MITCHELL: I just wanted it on record---.

3 JIM KISER: Okay.

4 KEN MITCHELL: ---on testimony that we're dealing
5 with one seam.

6 JIM KISER: Sworn testimony.

7 BOB WILSON: Mr. Chairman, if this is approved,
8 that will have to be reflected in the permit application as
9 well---.

10 JIM KISER: Right.

11 BOB WILSON: ---that it actually coincides with the
12 Board order.

13 JIM KISER: Right.

14 BENNY WAMPLER: Other questions?
15 (No audible response.)

16 BENNY WAMPLER: Do you have anything further?

17 JIM KISER: Mr. Chairman, we'd ask that these two
18 applications be approved as submitted.

19 BENNY WAMPLER: Mr. Johnson, do you have anything
20 further?

21 DONALD R. JOHNSON: I'd like to say to the Board, I
22 think this...what Mr. Wilson said about Virginia is very
23 correct. I think this is a wonderful opportunity to see if
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1 we can get something....something new in place that will
2 enhance coal recovery, enhance gas recovery, enhance royalty
3 income and put less holes in the ground and take care of the
4 environment. I think this is a plus for everybody and it's a
5 real opportunity. I hope it works well. I wish Equitable,
6 and certainly my clients wish Equitable all the best in this
7 effort. I hope it's very successful. On behalf of Lon B.
8 Rogers Bradshaw Trust Number 1 and Trust Number 2, I ask the
9 Board to approve the request with respect to the Buchanan
10 County project. Thank you.

11 BENNY WAMPLER: Okay, we have the Nora Field
12 Provisional Field Rule application and Oakwood Field
13 Provisional application before us for mod...provisional
14 modifications. Is there a motion?

15 KEN MITCHELL: Motion for approval, Mr. Chairman.

16 DENNIS GARBIS: I second.

17 BENNY WAMPLER: Motion and second. Any further
18 discussion?

19 (No audible response.)

20 BENNY WAMPLER: All in favor, signify by saying
21 yes.

22 (All members signify by saying yes.)

23 BENNY WAMPLER: Opposed, say no.

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1 (No audible response.)

2 BENNY WAMPLER: You have approval.

3 JIM KISER: Thank you very much.

4 BENNY WAMPLER: We've got some Board business.

5 Don, I know you've got to head out. Bob, do you have

6 anything?

7 (People confer among themselves.)

8 BENNY WAMPLER: We're still in a meeting here,

9 folks. I need you step out if you need to talk because I've

10 got to go over some things with the Board.

11 (People exit the room.)

12 BENNY WAMPLER: I ask you to come to order, please.

13 The Board is going to continue it's meeting. I've mentioned

14 to the Board members at the last meeting that...Mr. Kiser,

15 you may want to stick around.

16 JIM KISER: Yeah.

17 BENNY WAMPLER: Les, you may want to...Mr.

18 Arrington, you may want to stick around to hear this part.

19 The Attorney General's office is working with us to provide

20 draft standard forms of orders, various types of orders for

21 your consider...for the Board's consideration for use

22 following next month's meeting. We have drafts of that

23 standard form of order here today for the Board's

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1 consideration and we'll be getting that out to the people
2 that typically come before the Board for comment, response,
3 and we'd like to get those from the Board and from other
4 parties within two weeks if could. Now, that doesn't
5 eliminate the Board from having additional comments next
6 months if you can't. But to the extent you can get it within
7 the next two weeks, your comments and concerns of what I'm
8 going to hand out to you, that would be very helpful. We'll
9 be distributing that, as I say, to other people that do come
10 before the Board. Sharon, do you have anything that you want
11 to say about this?

12 SHARON PIGEON: Well, this is just our preliminary
13 effort. We've got what, six, I think, of these right now.
14 And these are the ones we're currently seeing. As things
15 develop, we will have some more that we'll present to you for
16 comment and hopefully use thereafter.

17 BOB WILSON: And email these, too?

18 SHARON PIGEON: Yes.

19 JIM KISER: So, these are proposed standard forms
20 that you're going to have the Board comment on and the
21 operators comment on in the hopes that we can come up with
22 one standard form and then with the conclusion of the March
23 hearings, the operators will start---?

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1 SHARON PIGEON: At the conclusion of the February.
2 JIM KISER: ---February hearing, and the beginning
3 of the March hearing as part of our application will be a
4 draft proposed order, right?
5 SHARON PIGEON: That's right. And we're---.
6 JIM KISER: We're fine with that.
7 SHARON PIGEON: ---optimistic that we will be able
8 ultimately to do all of this email/online.
9 JIM KISER: Oh, really?
10 SHARON PIGEON: We have some software to monitor
11 changes---.
12 BENNY WAMPLER: What we'd like to do---.
13 JIM KISER: So filing the applications and
14 everything?
15 SHARON PIGEON: No. I don't know about that. I'm
16 only addressing---.
17 BENNY WAMPLER: No, not yet for that.
18 JIM KISER: Okay.
19 BENNY WAMPLER: Just for the order itself that this
20 form will be on a disk that you'll be able to fill in the
21 blanks.
22 LESLIE K. ARRINGTON: So, we come---.
23 JIM KISER: Okay.
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1 LESLIE K. ARRINGTON: ---in with the basic draft
2 order at that...during the hearing?
3 SHARON PIGEON: Uh-huh. Uh-huh.
4 JIM KISER: You do that anyway, don't you?
5 LESLIE K. ARRINGTON: We attach one, but it's
6 really---.
7 SHARON PIGEON: It's not the one we can use.
8 LESLIE K. ARRINGTON: Right, it's not.
9 SHARON PIGEON: And hopefully this one will be.
10 LESLIE K. ARRINGTON: Okay.
11 BILL HARRIS: Is there---?
12 BENNY WAMPLER: Mr. Harris.
13 LESLIE K. ARRINGTON: So, would you want this draft
14 attached to the application?
15 JIM KISER: Yeah, that's what he's saying.
16 SHARON PIGEON: Well, that's the only time you're
17 submitting anything to us and we want it at the time we're
18 acting so that, you know, there's no delay. That's what
19 we're trying to do is take out the downtime.
20 LESLIE K. ARRINGTON: Okay, but you all have at
21 times people showing up at the hearings.
22 JIM KISER: Yeah.
23 LESLIE K. ARRINGTON: Amendments, exhibits. At the
24

1 hearing, I guess what we would do would be redraft and submit
2 it.

3 SHARON PIGEON: If you had a witness, for instance,
4 you might have a change in the special findings where someone
5 gave testimony---.

6 JIM KISER: Right.

7 SHARON PIGEON: ---that was contrary to---.

8 JIM KISER: Right.

9 SHARON PIGEON: ---the ultimate ruling but the
10 Board did not accept that testimony as control...you know,
11 it's not---.

12 LESLIE K. ARRINGTON: Yes.

13 SHARON PIGEON: There might be something like that.
14 I think basically that could just be added on as an
15 additional finding because those are like 17.1, 2, 3, 4, 5.

16 LESLIE K. ARRINGTON: Yes.

17 JIM KISER: Just a second draft.

18 LESLIE K. ARRINGTON: Okay.

19 JIM KISER: You're hoping that maybe in 60 or 75%
20 of the cases what gets submitted with the application can
21 actually be the order that's executed?

22 SHARON PIGEON: Uh-huh. Correct.

23 BENNY WAMPLER: That's right.

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1 JIM KISER: It won't work every time.

2 SHARON PIGEON: And that that's all we have to go
3 back and check.

4 JIM KISER: Right, right.

5 BENNY WAMPLER: That's what we're shooting for.

6 SHARON PIGEON: That we don't have to go through
7 all this standard language that's in there. It has to be in
8 there. But still it's just over and over again. That's a
9 real time eater.

10 JIM KISER: Oh, yeah.

11 LESLIE K. ARRINGTON: That's aggravating at times
12 reading through that stuff.

13 BENNY WAMPLER: So, you know, if you will go
14 through them thoroughly and give us comments within a couple
15 of weeks---.

16 JIM KISER: Get it back to you in a...try to get
17 back to you within two weeks?

18 BENNY WAMPLER: ---and we'll be trying to have it
19 edited and back to the Board for the next meeting. At the
20 next meeting, we'll be asking the Board for approval of those
21 orders after the Board has it's say so about those. Then for
22 that meeting, for the February meeting, we would ask the
23 orders to be in that...for you all to use those.

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1 JIM KISER: Right. And then starting in March,
2 with the March applications, submitting the draft orders with
3 the applications, is that correct?

4 BENNY WAMPLER: That would be helpful.

5 JIM KISER: Okay.

6 LESLIE K. ARRINGTON: All right.

7 JIM KISER: And our...most of the time it will
8 probably work. Sometimes it won't.

9 BENNY WAMPLER: Well, we recognize that there's
10 times.

11 JIM KISER: Right.

12 BENNY WAMPLER: It's just like these...these orders
13 don't cover absolutely everything either like---.

14 JIM KISER: Right,

15 BENNY WAMPLER: ---the field rules today and things
16 like that.

17 JIM KISER: Right.

18 SHARON PIGEON: Yeah. We didn't try to deal with
19 that.

20 BENNY WAMPLER: You know, you don't try to do that.
21 We are going to try to work toward having four field rules,
22 for example, here's kind of the checklist of things. We'll
23 get to those other kinds of things like that.

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1 JIM KISER: This should be very helpful to you,
2 though.

3 SHARON PIGEON: It should be very helpful to
4 everyone---.

5 JIM KISER: Yeah.

6 SHARON PIGEON: ---because you all don't have to
7 wait for your---.

8 JIM KISER: Right.

9 SHARON PIGEON: ---order and I won't have to be
10 further reminded I have no secretary.

11 JIM KISER: Since we're patting everybody on the
12 back, you're doing pretty good with you not having any help.

13 SHARON PIGEON: I'm doing fair considering I have
14 absolutely no support staff.

15 JIM KISER: I can't believe that. But that's
16 another story.

17 (Board confers.)

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21 STATE OF VIRGINIA,

22 COUNTY OF BUCHANAN, to-wit:

23 I, SONYA MICHELLE BROWN, Court Reporter and Notary

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1 Public for the State of Virginia, do hereby certify that the
2 foregoing hearing was recorded by me on a tape recording
3 machine and later transcribed by me personally.

4 Given under my hand and seal on this the 12th day
5 of February, 2003.

6 NOTARY PUBLIC

7 My commission expires: August 31, 2005.